



February 15, 2019

Patrick Sanchez, Superintendent
Newark Unified School District
5715 Musick Avenue
Newark, CA 94560

Dear Superintendent Sanchez:

The purpose of this letter is to provide the Newark Unified School District with an update regarding progress made in implementing the recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) in its final report dated June 13, 2017.

In February 2017, the district and FCMAT entered into an agreement to provide a fiscal review of the district. Specifically, the study agreement states that FCMAT will perform the following:

1. Review the district's 2016-17 general fund budget and develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years to determine the district's financial status. Make recommendations for expenditure reductions and/or revenue increases to help the district to eliminate its structural budget deficit and maintain financial solvency. The MYFP will be a snapshot in time of the district's current financial status and will use the district's 2016-17 second interim report as its baseline.
2. Review operational processes and procedures for the business services department and make recommendations for improved efficiency, if any, in the following areas:
 - Budget development
 - Budget monitoring
 - Position control
 - Purchasing
 - Accounts payable
 - Accounts receivable
 - Payroll
 - Bond oversight
 - Associated student body oversight
 - School-connected organizations oversight

FCMAT

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The report issued in June 2017 provided a number of recommendations for the operational areas identified in the scope of work. Per Section 2(B), item 7 of the study agreement, the district has requested a follow-up review of its progress on implementing FCMAT's recommendations.

FCMAT visited the district again on December 6-7, 2018 to collect data, conduct interviews and review supporting documentation to evaluate the district's progress on implementing recommendations contained in the June 13, 2017 report. The original recommendations below are followed by comments summarizing the district's progress.

Recommendations

Multiyear Financial Projections

Recommendation No. 1 – The district should:

Develop a fiscal recovery plan to eliminate the district's structural deficit in the general fund.

Status: In Progress

The district's 2017-18 adopted budget and multiyear projection estimated \$67,830 in deficit spending in 2017-18, \$2,838,108 in 2018-19, and \$3,746,225 in 2019-20. The budget included \$4,318,280 in interfund transfers from the special reserve fund for noncapital outlay in 2017-18 and \$832,408 in 2018-19.

On June 26, 2017, the district adopted a resolution prioritizing budget reductions for the 2017-18 fiscal year and directing \$1.2 million to be reduced from the 2017-18 unrestricted general fund budget and \$3.8 million to be reduced from the subsequent two fiscal years. The resolution directs staff to establish spending limitations in books and supplies, consulting services, tier 2 administration support, substitute budgets, and unfunded overtime. Additionally, the resolution directs staff to transition to maximum class size over the two years and evaluate adult/student ratios in both general and special education classes.

On October 3, 2017, the district adopted a "Resolution Confirming the District's Commitment to Fiscal Solvency," which identified \$3.6 million in reductions for the 2018-19 fiscal year.

The district's 2017-18 first interim report and multiyear projection incorporated the proposed reductions for 2017-18 and 2018-19 and projected a surplus of \$1,079,077 in 2017-18, a deficit of \$307,165 in 2018-19, and a deficit of \$83,954 in 2019-20. The budget included an interfund transfer of \$3.3 million from the special reserve fund in 2017-18. The district's 2017-18 second interim report and multiyear projection showed similar results.

The district's 2018-19 adopted budget and multiyear projection estimated a surplus of \$44,597 in 2018-19, a deficit of \$1,293,202 in 2019-20, and a deficit of \$41,650 in 2020-21. No interfund transfers into the general fund were projected to be made in any year of the projection. The reductions to certificated salaries proposed for 2018-19 were not implemented; therefore, salary levels remained higher for all three years than projected in the 2017-18 first interim report.

The 2018-19 enacted state budget reduced funding to districts from the amount projected at May Revise, which the district used to build its budget. On August 21, 2018, the district's governing board passed the "Resolution Confirming District's Commitment to Removing its Structural Deficit," identifying a budget deficit of \$514,967 for 2018-19, and \$1,472,963 in 2019-20.

The district's 2018-19 first interim report, adopted by the board subsequent to FCMAT's fieldwork, projects a deficit of \$855,423 in 2018-19, a deficit of \$454,052 in 2019-20, and a deficit of \$353,690 in 2020-21. A \$1.6 million reduction in certificated salaries and a \$200,000 reduction in classified salaries are projected for 2019-20. No interfund transfers into the general fund are projected.

While the district has developed various plans for expenditure reductions, the identified reductions have not been fully implemented, and the district continues to deficit spend. However, deficit spending has been reduced from the levels projected in the 2017-18 adopted budget. The district continues to evaluate alternatives for revenue enhancement and expenditure reductions.

Recommendation No. 2 – The district should:

Refrain from using one-time resources to fund ongoing operational expenses.

Status: In Progress

As outlined above, the district has reduced projected deficit spending and reliance on one-time resources to fund ongoing operational expenses. Interfund transfers from the special reserve fund to the general fund have been eliminated in the district's 2017-18 first interim projections; however, deficit spending is projected to continue with a resulting decline in fund balance. The 2017-18 adopted budget and multiyear projection estimates transfers in from the special reserve fund of \$4,318,280 in 2017-18 and \$832,408 in 2018-19, depleting the fund's balance. The actual transfer from the special reserve fund to the general fund in 2017-18 was \$3 million.

The district's 2018-19 adopted budget and multiyear projection estimated an unrestricted general fund surplus of \$44,597 in 2018-19, a deficit of \$1,293,202 in 2019-20, and a deficit of \$41,650 in 2020-21, with no interfund transfers into the general fund.

The 2018-19 first interim report projects no interfund transfers into the general fund; however, the district projects to deficit spend by \$855,423 in 2018-19. The multiyear projection shows a reduction to certificated and classified salaries totaling \$1.8 million, but \$454,052 in deficit spending continues in 2019-20 and \$353,690 in 2020-21. The unrestricted general fund balance is projected to decline from \$4,219,004 on July 1, 2018 to \$2,555,839 on June 30, 2021.

Although the district has made progress in eliminating the reliance on one-time resources, it continues to deficit spend, potentially resulting in the need to augment the general fund with other one-time resources, including interfund transfers.

Recommendation No. 3 – The district should:

Evaluate whether the use of one-time funding for operational expenses adversely affects the Form Current Expense of Education in SACS.

Status: Implemented

Form CEA, current expense formula/minimum classroom compensation, filed with the district's 2017-18 unaudited actuals report, showed the district meeting the required minimum classroom compensation percentage. The use of \$3 million in one-time funding from the special reserve fund in 2017-18 did not adversely affect the Form CEA.

Budget Development

Recommendation No. 1 – The district should:

Submit information in a monthly budget report to the school board connecting the district budget to each of its goals and objectives and trends in student achievement.

Status: Implemented

A review of board minutes confirms monthly budget reports covering July 2017 through September 2018 were submitted to the board beginning in February 2018 and continuing through November 2018.

Recommendation No. 2 – The district should:

Along with the monthly budget report, also present a brief analysis of relevant changes from the previous month, including but not limited to changes in operating costs, active and retiree benefit trends, salary and benefits as a percentage of all expenditures, contributions to restricted programs, ongoing vs. one-time resources, general fund deficits and projected balances of reserve funds and cash flow for all funds.

Status: In Progress

A review of board minutes confirms that budget reports were presented monthly from February through November 2018, covering the months of July 2017 through September 2018. Reports are presented by object code for all major funds of the district. The first report shows budget revisions made during the month, encumbrances, actual revenues and expenditures to date, and net change to budget. A second report is submitted showing budgeted revenues, expenditures, and other financing sources/uses, actuals to date, encumbrances, budget balance, and percent of budget remaining, along with beginning and ending fund balance. Cash flow projections are not presented.

Recommendation No. 3 – The district should:

Continue to avoid unadjusted rollovers of prior year budget amounts when preparing the budget and multiyear financial projections.

Status: Implemented

The 2018-19 adopted budget was developed by the former chief business official (CBO) who left the district in June 2018. Board budget study sessions were conducted throughout the budget development process. Goals and objectives identified in the Local Control and Accountability Plan (LCAP) were incorporated into the budget. Business office staff met with site principals and with each department before finalizing their budgets. The current CBO who assumed his position in September 2018 stated that he plans to begin meeting with sites and departments in March 2019 to develop the 2019-20 budget.

Recommendation No. 4 – The district should:

Until formal desk manuals for budget development procedures are created, continue to use the binder provided by the previous CBO. Ensure that each staff member has a thorough knowledge of the information in the binder and the part their position plays in budget development. This will improve the efficiency and accuracy of budget data and maintain continuity of procedures in the event of staff turnover.

Status: In Progress

The 2018-19 adopted budget was developed by the former CBO who left the district in June 2018, using the budget binder that was developed by his predecessor. The current CBO, who started in September 2018, is not familiar with the budget binder.

Recommendation No. 5 – The district should:

Continue to improve communications about the district's budget through easy-to-understand narratives, monthly updates to the board and board budget study sessions.

Status: Implemented

Multiple budget study sessions are held throughout the year to communicate and provide budget information to those affected and to discuss the multiyear plan for addressing the district's structural deficit. The budget advisory committee continues to meet weekly to discuss various alternatives for revenue enhancement and budget reductions. Several community engagement sessions were held to receive input on possible budget reductions. Presentations provided with the adopted budget, first interim, and second interim reports include clear narratives regarding assumptions for enrollment and average daily attendance (ADA), revenues, expenditures, one-time revenues and expenditures, contributions, and changes to ending fund balance.

Budget Monitoring

Recommendation No. 1 – The district should:

Review all budgets monthly. When funds are limited, a frequent review can help prevent variances between budgeted and actual expenses at year-end closing.

Status: Implemented

Business office staff reported to FCMAT that budget monitoring is ongoing. The budget and position manager monitors salary and benefit lines, and the director of fiscal services monitors all other object codes. The CBO meets regularly with both individuals. Budget revisions are made as needed. A review of budget reports presented at board meetings confirms that budget revisions are made regularly.

Recommendation No. 2 – The district should:

Prepare a monthly budget to actual summary report for all funds to be presented at a regular board meeting.

Status: Implemented

Monthly budget reports for all funds were presented to the board monthly from February through November 2018 with activity from July 2017 through September 2018.

Recommendation No. 3 – The district should:

Minimize budget entries using the Escape system's ability to create new budget models from position control during critical reporting times and post that information to the working budget.

Status: Not Implemented

The business office maintains a position control spreadsheet that is separate from the position control module in the Escape system, which is maintained by human resources. The budget is updated for salary and benefit changes at interim reporting periods. Budget adjustments for salaries and benefits continue to be made manually.

Recommendation No. 4 – The district should:

Continually report at board meetings the need for and cause of budget adjustments and how they affect the ending fund balance.

Status: In Progress

A review of board minutes confirms that budget reports were presented monthly from February through November 2018, covering July 2017 through September 2018. Reports are presented by object code for all major funds of the district. Staff reported that no specific discussion

occurs on the reasons for the revisions and the effect on the ending fund balance except at interim reporting periods.

Position Control

Recommendation No. 1 – The district should:

Continually review and monitor certificated staff assignments and class sizes to ensure staffing levels are appropriate and cost-effective.

Status: In Progress

Staff indicated that the Educational Services and Human Resources departments are responsible for reviewing and monitoring certificated staff assignments and class sizes to ensure that staffing levels are appropriate and cost-effective. The budget and position manager also has some involvement in comparing FTE with class sizes. This information does not appear to be communicated effectively to the board or administrative staff to ensure that staffing levels are adjusted appropriately. During interviews, staff indicated that the district was examining class sizes and staffing levels at both the elementary and secondary levels at the time of fieldwork.

Recommendation No. 2 – The district should:

Set up biannual inter-departmental meetings to reconcile position control to site/department staff lists and to payroll.

Status: In Progress

Staff reported that the budget and position manager, human resources personnel, and payroll personnel met over the summer to reconcile position control data to site/department staff lists and to payroll. The executive director of human resources and the budget and position manager both indicated they intend to improve communication between the two departments and resume regular meetings.

Recommendation No. 3 – The district should:

Train all staff on how their work affects others in the district office.

Status: In Progress

Staff reported that effective communication between the Human Resources and Business Services departments continues to be difficult, but some progress has been made over the last year. The executive director of human resources assumed that position in July 2018, and the staff are optimistic that communication between the departments will improve under her leadership. The executive director of human resources and the budget and position manager both indicated they intend to resume regular meetings and improve communication between the two departments.

Recommendation No. 4 – The district should:

Ensure that all staff members have the opportunity for professional development in their respective areas.

Status: Implemented

Most staff members interviewed stated that they were receiving training related to the financial system and in their area of work. Multiple opportunities for training were offered, and in many cases, staff were receiving on-the-job training from the individual that previously held the position.

Purchasing

Recommendation No. 1 – The district should:

Update board policies and administrative regulations so they reflect changes in statute.

Status: In Progress

Board minutes indicate that several board policies and administrative regulations on purchasing were revised and updated in 2018, and the district provided copies to FCMAT. However, the updated policies and administrative regulations had not been posted to the district's website as of the date of fieldwork.

Recommendation No. 2 – The district should:

Continue the use of the online purchasing module in Escape Technologies.

Status: Implemented

The district continues to use the online purchasing module in Escape Technology, with ongoing technical support provided by the Alameda County Office of Education.

Recommendation No. 3 – The district should:

Develop a purchasing handbook as a reference guide for all district personnel involved in any aspect of the purchasing process.

Status: In Progress

Various purchasing procedures on topics such as how to create requisitions and how to purchase items online have been documented by current and former district staff. However, these procedures have not been compiled into one comprehensive document and are not located in one centralized area.

Recommendation No. 4 – The district should:

Revise Board Policy and Administrative Regulation 3311 to indicate that the district participates in the Office of the State Controller’s CUPCCAA program.

Status: In Progress

District board agendas and minutes indicate that revisions to Board Policy and Administrative Regulation 3311 were approved on May 15, 2018 and copies were provided to FCMAT; however, the revised board policy and administrative regulation had not been posted to the district’s website as of the date of fieldwork.

Recommendation No. 5 – The district should:

Ensure that the master list of contractors is maintained, and trade journals are notified by the required deadline when CUPCCAA is utilized.

Status: Not Implemented

The district indicated that this has previously been handled by a district contractor. The district should contact the contractor to determine if this is being accomplished in accordance with California Uniform Public Construction Cost Accounting Act (CUPCCAA) participation requirements. If not, the district will need to maintain the master list and notify the appropriate trade publications.

Accounts Payable

Recommendation No. 1 – The district should:

Provide ongoing professional development for the accounting technician responsible for accounts payable.

Status: Implemented

The account technician responsible for accounts payable has attended professional development workshops on accounts payable, as well as trainings on the Escape Technology accounting system used by the district.

Recommendation No. 2 – The district should:

Consider using pay vouchers, rather than purchase orders, to pay for nondiscretionary expenditures, such as utilities that are approved in the adopted budget.

Status: In Progress

Some purchase orders are created at the beginning of each fiscal year for certain anticipated expenditures. However, the district indicated that various nondiscretionary expenditures, including utilities, still lack the use of pay vouchers to facilitate payment. Accordingly, the district should still establish and maintain a process to more efficiently handle these annual routine expenditures.

Accounts Receivable

Recommendation No. 1 – The district should:

Provide ongoing professional development for the accounting technician responsible for accounts receivable.

Status: Implemented

The account technician has attended professional development on accounts receivable, including training on the year-end closure process and the Escape Technology accounting system used for accounts receivable purposes.

Recommendation No. 2 – The district should:

Include another position in the accounts receivable process to establish appropriate segregation of duties, strengthen internal controls, and provide a backup when needed.

Status: Not Implemented

While no other position has been assigned to this area, the district believes it has sufficient coverage for the accounts receivable process. Invoicing by the account technician is limited to graphic communications. Most invoicing is accomplished by other staff members; the account technician prepares the deposit and records payments in the Escape system, a third staff member reviews and verifies the ledger, and the director of fiscal services takes the deposit to the bank. Other fiscal staff are sufficiently trained to support this function during staffing absences. FCMAT continues to recommend that a staff member other than the account technician preparing invoices receive payment for those invoices.

Recommendation No. 3 – The district should:

Establish a tickler file at year-end closing to remind the business office to invoice outside users for contractual agreements, such as rents and leases, if they are not invoiced monthly.

Status: Implemented

The district uses automated calendar reminders to ensure invoicing for items such as rents and leases are prepared and sent timely. This appears to be done both at year-end closing, as well as during other months throughout the year.

Payroll

Recommendation No. 1 – The district should:

Continue using the personnel action form as the vehicle to notify Payroll of employee changes.

Status: Implemented

The district continues to use the personnel action form to notify the business office of personnel changes. The form is paper with manual routing for approval and notification, and one staff member indicated electronic routing would be more efficient. Some staff members stated that the form does not always follow the proper approval routing path.

Recommendation No. 2 – The district should:

Set up monthly meetings between the Human Resources and Payroll staff approximately one week before the payroll closes to address any issues and answer questions regarding changes.

Status: In Progress

Staff reported that regular meetings were held at one time, but no longer occur. The new executive director of human resources stated she intends to resume meeting with business and payroll staff monthly. At the time of fieldwork, one meeting had been held, but the next meeting had not been scheduled. Staff reported that meetings are difficult to schedule during payroll deadline periods.

Recommendation No. 3 – The district should:

Continue to balance the payroll from month to month to ensure proper payment to each employee.

Status: Implemented

After payroll data is entered into the financial system each month, several reports are produced to balance the payroll and check for errors. These include reports on adjustments, errors, differences, and a summary. The reports are compared to personnel action forms, leave docking request forms, and the position control spreadsheet. Each payroll technician reviews the other's work, and reports are also reviewed by the position and budget manager and the director of fiscal services.

Associated Student Body and School-Related Organizations Oversight

Recommendation No. 1 – The district should:

Ensure that the district complies with laws, regulations and district policies governing ASB accounting and related practices.

Status: Implemented

The district's Business Services Department is actively involved in ensuring compliance with various laws, regulations and district policies regarding ASB. Trainings are provided to ASB staff, and ASB staff contact the district office when assistance is needed. Relevant site staff have attended formal ASB training to ensure compliance with proper procedures. Findings reported in the 2015-16 audit have been resolved, and there were no findings related to ASB in the 2016-17 or 2017-18 audit reports.

Recommendation No. 2 – The district should:

Assign individual business office staff members to address each audit exception and hold them accountable for the proper and timely resolution of each exception. Include a timeline for completion before the end of each fiscal year.

Status: Not Reviewed

The district's most recent two audit reports did not contain any audit exceptions related to ASB at the time of this review; however, the district has improved oversight of ASB since the initial study was performed.

Recommendation No. 3 – The district should:

Ensure that the business office periodically reviews the status of the audit findings to ensure compliance and provide additional training as needed.

Status: Not Reviewed

The district's most recent two audit reports did not contain any audit exceptions related to ASB at the time of this review; however, the district has improved oversight of ASB since the initial study was performed.

Recommendation No. 4 – The district should:

Require all staff members to use existing forms and procedures for the following:

- a. Separation of ASB and other site cash receipts for lost books**
- b. Use of revenue potential forms**
- c. Issuance of receipts for all cash received in the ASB office**
- d. Timely and accurate bank reconciliations**
- e. Sufficient separation of duties**
- f. Rotation of staff for gate receipt handling**
- g. Ensuring that all staff follow purchasing procedures**

Status: Implemented

- a. The ASB samples reviewed by FCMAT showed that only ASB-related cash receipts are included in ASB accounts.
- b. A “Request for Fundraiser Approval” form is in use and includes total anticipated revenue, expenses associated with the fundraiser, and the ASB purpose for use of the funds.
- c. Prenumbered receipts are issued when cash is received.
- d. At least two individuals prepare and review monthly bank reconciliations, including the ASB coordinator who typically prepares the reconciliation, and another person, such as the site principal or office manager. The district accountant reviews the bank reconciliations as well.
- e. The sample documents reviewed by FCMAT showed sufficient separation of duties in critical areas, such as check signing and cash controls. However, as with most school districts, limited site staff are involved with, and have sufficient knowledge of, ASB. Accordingly, FCMAT cannot determine with certainty whether sufficient separation exists at all sites and at all times.
- f. The sample used by FCMAT indicated that events such as dances are usually handled by advanced ticket purchase, reducing or eliminating any cash-related gate receipts. When cash is involved, two individuals count the cash for verification purposes.
- g. The sample used by FCMAT indicated that when purchases are made, ASB staff have sufficient knowledge of the required purchasing procedures to comply with district policies and processes.

Recommendation No. 5 – The district should:

Provide the FCMAT ASB manual to all ASB staff.

Status: In Progress

Not all ASB staff had received the FCMAT ASB manual as of the date of fieldwork; however, because it is available electronically, the distribution of the manual could be provided via email with minimal effort and at no cost to the district. The district should ensure that new staff are provided with the manual and know where to find it online.

Recommendation No. 6 – The district should:

Provide ASB staff with training on sound internal control procedures.

Status: In Progress

The district provided training to ASB staff in March 2016 and provides training individually to staff members as needed. However, some newer ASB staff members have not received training, and have learned from other site staff who have handled ASB functions in the past. The district should also encourage site principals to attend training provided by the district to ASB staff.

Bond Oversight

Recommendation No. 1 – The district should:

Continue to have the citizens’ oversight committee review annual, independent financial and performance audits.

Status: Implemented

The citizens’ oversight committee continues to meet regularly and reviews the annual independent financial and performance audits and reports.

Recommendation No. 2 – The district should:

Ensure that the committee physically inspects the school buildings and grounds.

Status: In Progress

Physical inspection of school buildings and grounds by the committee has not occurred regularly; however, the citizens’ bond oversight committee conducted site tours in January and April 2018. For areas not easily accessible, the committee has begun using drones to facilitate inspection.

Recommendation No. 3 – The district should:

Continue to have the committee review the deferred maintenance plans and prepare reports to the governing board.

Status: Not Implemented

The committee has not reviewed the district’s deferred maintenance plans. The district’s governing board receives an annual report, but otherwise does not receive routine communication from the committee.

Recommendation No. 4 – The district should:

Ensure that the committee reviews district efforts to maximize bond revenues through implementation of cost-containment measures.

Status: Implemented

Cost-containment measures are reviewed and implemented within state compliance requirements.

Summary

The district has made significant progress toward implementing the recommendations identified by FCMAT in its final report dated June 13, 2017. The district has implemented or has made progress toward implementing 35 of the original 39 recommendations. The district's greatest challenge continues to be eliminating the structural deficit and its reliance on one-time resources to fund ongoing operational expenses. The superintendent and administrative staff have involved the board and community in discussions on potential budget reductions and revenue enhancements. Board presentations and budget workshops have included topics such as strategies to increase enrollment, passing a parcel tax, closing a school, and reducing staff and other operating expenditures. Plans were developed to reduce expenditures, but the reductions were not fully implemented. The district will need to continue to closely monitor its fiscal position and develop and implement a plan to eliminate its structural deficit to sustain its fiscal solvency in the future.

This management letter contains the study team's evaluation of the district's status on implementing FCMAT's recommendations from the June 13, 2017 report. Please review this document and provide any suggested changes or revisions by February 1, 2019. If you have any questions regarding this letter, please contact me at driedmiller@fcmat.org or 661-636-4368.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Newark Unified School District for their assistance and cooperation during this follow-up review.

Sincerely,

A handwritten signature in cursive script that reads "Debbie Riedmiller".

Debbie Riedmiller, CFE

Intervention Specialist