



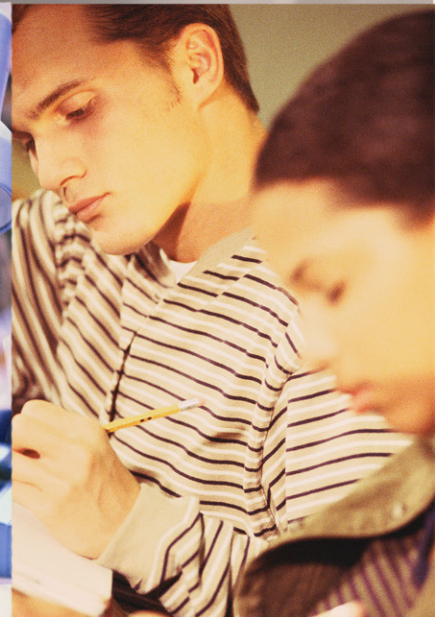
**CSIS** California School Information Services

# Alvord Unified School District

## Fiscal Health Risk Analysis

May 1, 2019

**Michael H. Fine**  
Chief Executive Officer







May 1, 2019

Allan Mucerino, Superintendent  
Alvord Unified School District  
9 KPC Parkway  
Corona, CA 92879

Dear Superintendent Mucerino:

On March 1, 2019, the Alvord Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement states that FCMAT will perform the following:

1. Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis (2018 version) and identify the district's specific risk rating for fiscal insolvency.

This report contains the study team's findings.

FCMAT appreciates the opportunity to serve you and we extend thanks to all the staff of the Alvord Unified School District for their cooperation and assistance during fieldwork.

Sincerely,

Michael H. Fine  
Chief Executive Officer

**FCMAT**

Michael H. Fine, Chief Executive Officer

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# About FCMAT

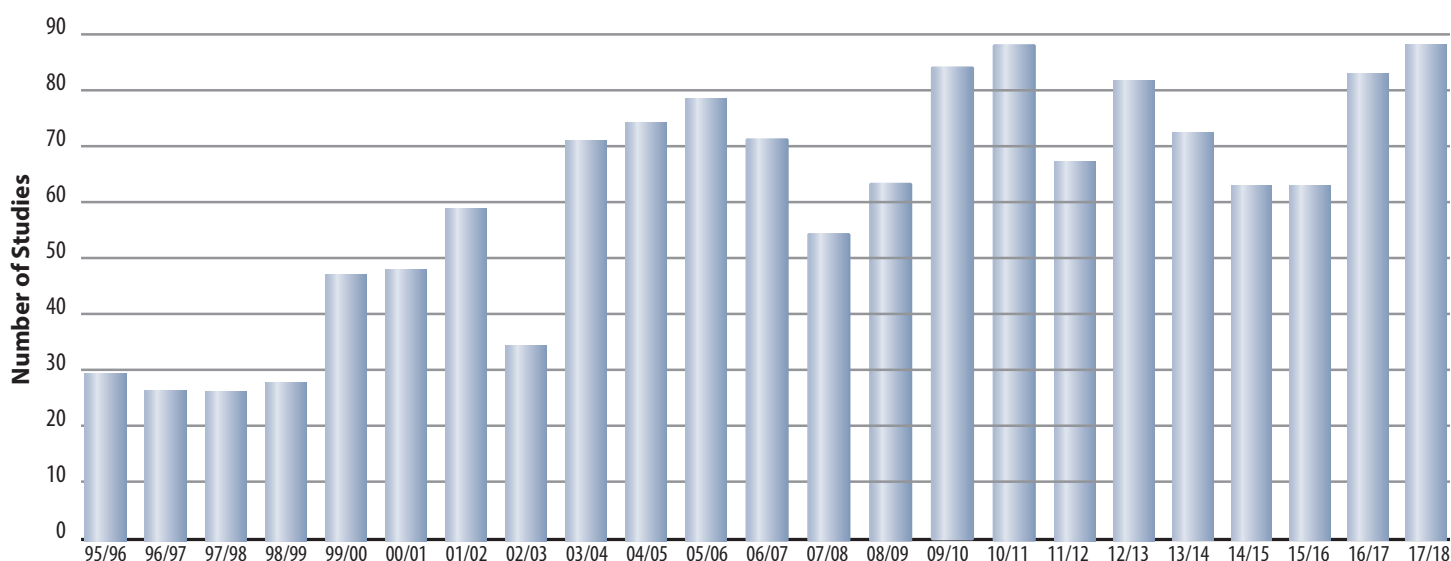
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

## Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website ([www.ed-data.org](http://www.ed-data.org)) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 became effective. This legislation changed how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

# Introduction

Historically, FCMAT has not engaged directly with school districts showing distress until it has been invited to do so by the district or the county superintendent. The state's 2018-19 Budget Act provides for FCMAT to offer "more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:

- Disapproved budget
- Negative interim report certification
- Three consecutive qualified interim report certifications
- Downgrade of an interim certification by the county superintendent
- "Lack of going concern" designation

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of risk for insolvency. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, medium and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per AB 1200. There is no cost to the county superintendent or to the district for the analysis.

## Study Guidelines

FCMAT entered into the study agreement with the Alvord Unified School District on March 1, 2019.

FCMAT visited the district on March 19-21, 2019 to conduct interviews, collect data and review documents. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

## Study Team

The team was composed of the following members:

Debbie Riedmiller, CFE  
FCMAT Intervention Specialist  
Bakersfield, CA

Jeff Potter, CFE  
FCMAT Intervention Specialist  
Bakersfield, CA

Scott Sexsmith  
FCMAT Intervention Specialist  
Auburn, CA

Leonel Martínez  
FCMAT Technical Writer  
Bakersfield, CA

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.

# District Overview

The Alvord Unified School District is located in Riverside County and encompasses the western portion of the city of Riverside, the eastern portion of the city of Corona and parts of unincorporated areas in Riverside County. The district serves approximately 18,400 students in transitional kindergarten through 12th grade at 14 elementary schools, four middle schools, three comprehensive high schools and two alternative high schools. The district's 2018-19 unduplicated pupil percentage is 81.3% and includes students who qualify for free and reduced-price meals, English learners and foster youth. The district is governed by a five-member board of trustees.

According to data from the California Department of Education (CDE), student enrollment peaked at 20,057 in 2008-09 and has decreased in all but one year since then. In the current and two prior fiscal years, the rate of decline in enrollment has accelerated. Enrollment declined 1.08% in 2016-17, 1.3% in 2017-18 and 3.01% in 2018-19. In the current year, the district experienced a loss of 573 students.

The district's 2017-18 unaudited actuals report showed deficit spending of \$2.7 million in the unrestricted general fund. The multiyear projections prepared with the 2018-19 revised adopted budget indicated deficit spending in the unrestricted general fund of \$1.4 million in 2018-19, \$2.7 million in 2019-20 and a surplus of \$32,931 in 2020-21. The projection was based on planned expenditure reductions of \$2.1 million in 2019-20 and \$5.3 million in 2020-21.

On November 1, 2018 the board approved a settlement with the district's certificated bargaining unit projected to cost \$5.2 million annually and subsequently settled with the classified bargaining unit at a projected annual cost of \$1.6 million. The multiyear financial projection submitted to the county office with the disclosure documents indicated deficit spending in all three years of the projection and negative unrestricted general fund ending balances in the subsequent two years. On November 9, 2018 in response to the settlement disclosure, the county office issued a letter to the district declaring a lack of going concern. Under the 2018-19 State Budget Act, because the school district had this designation, FCMAT performed an FHRA to determine the level of risk for insolvency. This report is a result of that analysis.

# Fiscal Health Risk Analysis

## For K-12 Local Educational Agencies

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district's fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 20 sections, each containing specific questions. Each section and specific question is included based on FCMAT's work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control. The analysis focuses on essential functions and processes to determine the level of risk at the time of fieldwork; however, it is not a detailed review of all systems and finances, nor does it consider subsequent events.

The greater the number of "no" answers to the questions in the analysis, the higher the score, which points to a greater potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily toward or against a district's fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A "yes" or "n/a" answer is assigned a score of 0, so the risk percentage increases only with a "no" answer.

To help the district, narratives are included for responses that are marked as "no" so the district can better understand the reason for the response and actions that may be needed to obtain a "yes" answer.

Identifying issues early is the key to maintaining fiscal health. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider completing the FHRA annually to assess its own fiscal health risk and progress over time.

District or LEA Name: Alvord Unified School District

Dates of Fieldwork: March 19-21, 2019

1. Annual Independent Audit Report		Yes	No	N/A
1.1	Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)? . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district's 2017-18 audit report identified material findings in the following areas:</i>			
	<ul style="list-style-type: none"> <li>A lack of going concern because of unsustainable salary increases that create a structural deficit, declining enrolment, and inadequate cash flow</li> <li>Instructional time penalties resulting in an apportionment penalty of \$219,586</li> </ul>			
1.2	Has the independent audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller's Office should be explained.) . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Was the district's most recent independent audit report free of material findings? . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district's 2017-18 audit report identified material findings in the following areas:</i>			
	<ul style="list-style-type: none"> <li>A lack of going concern because of unsustainable salary increases that create a structural deficit, declining enrolment, and inadequate cash flow</li> <li>Instructional time penalties resulting in an apportionment penalty of \$219,586</li> </ul>			
1.4	Has the district corrected all reported audit findings from the current and past two audits? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.5	Has the district had the same audit firm for at least three years? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**2. Budget Development and Adoption****Yes No N/A**

- 2.1 Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated? . . . . . ☒ ☐ ☐
- 2.2 Does the district use a budget development method other than a prior-year rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses? . . . . . ☒ ☐ ☐
- 2.3 Does the district use position control data for budget development? . . . . . ☒ ☐ ☐
- 2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly? ☒ ☐ ☐
- 2.5 Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years? . . . . . ☐ ☒ ☐

*The district's 2018-19 adopted budget was conditionally approved by the county office, and the district was required to close the prior fiscal year, certify the 2017-18 unaudited actuals and submit a revised budget and multiyear projection. The 2018-19 revised budget was approved by the county office.*

- 2.6 Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? . ☒ ☐ ☐
- 2.7 Does the district budget and expend restricted funds before unrestricted funds? . . . ☐ ☒ ☐

*The district's restricted program carryover amounts and restricted ending fund balances have grown between 2015-16 and 2017-18 indicating that the district is not strategically spending restricted funds before unrestricted funds. A review of the district's unaudited actuals reports for 2015-16, 2016-17 and 2017-18 shows the following restricted carryover and ending balances:*

	2015-16	2016-17	2017-18
Carryover (Unearned Revenues)	1,277,468	1,730,811	2,690,072
Ending Fund Balance	3,473,349	4,950,216	3,770,298
Total	4,750,816	6,681,027	6,460,370

*The district reported in interviews that it reviews restricted budgets throughout the year and meets regularly with categorical program managers to report current available balances. The district stated it is purposefully planning to spend certain grant revenues over several years. Districts must ensure they spend categorical funds according to the requirements of the grantor.*

- 2.8 Have the LCAP and the budget been adopted within statutory timelines established by Education Code sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years? . . . . . ☒ ☐ ☐
- 2.9 Has the district refrained from including carryover funds in its adopted budget? . . . ☒ ☐ ☐
- 2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts? . . . . . ☐ ☒ ☐

*The 2016-17 adopted budget contained negative or contra expenditure accounts in the following accounts and amounts: \$81,172 in classified salaries; \$19,902 in employee benefits; \$2,824 in books and supplies; \$378,000 in services and other operating expenses.*

*The 2017-18 adopted budget contained negative or contra expenditure accounts in the following accounts and amounts: \$1,213,462 in certificated salaries; \$214,000 in classified salaries; \$113,602 in employee benefits.*

*The 2018-19 adopted budget contains negative or contra expenditure accounts in the following accounts and amounts: \$19,001,531 in certificated salaries; \$401,449 in classified salaries; \$7,338,798 in employee benefits; and \$541,098 in services and other operating expenses.*

- 2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund? . . . . . ☐ ☒ ☐

*District staff reported that they do not have a procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted general fund.*

- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them? . . . . . ☐ ☒ ☐

*The district has not used a budget calendar; however, a budget calendar has recently been developed for use with the 2019-20 budget adoption.*

### 3. Budget Monitoring and Updates Yes No N/A

- 3.1 Are actual revenues and expenses consistent with the most current budget? . . . . . ☒ ☐ ☐
- 3.2 Are budget revisions posted in the financial system at each interim report, at a minimum? . . . . . ☒ ☐ ☐
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum? . . . . . ☒ ☐ ☐
- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs before the next financial reporting period? . . . . . ☒ ☐ ☐
- 3.5 Does the district provide a complete response to the variances identified in the criteria and standards? . . . . . ☒ ☐ ☐
- 3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two fiscal years? . . . . . ☐ ☒ ☐

*Since 2016-17 the county office's oversight letters have cautioned the district about deficit spending, projected failure to meet reserve requirements, projected negative unrestricted general fund balances, declining enrollment, and cash availability. The district has made some reductions, but they have not been sufficient to eliminate deficit spending and potential fiscal insolvency.*

*On October 8, 2018, the county office approved the district's revised 2018-19 adopted budget, cautioned it about continued deficit spending and instructed it to provide the county with a detailed fiscal stabilization plan by December 15, 2018.*

*On November 1, 2018 the board approved a settlement with the district's certificated bargaining unit, approving a 1.5% salary schedule increase retroactive to July 1, 2017 and a 2.5% salary schedule increase retroactive to July 1, 2018. On December 13, 2018 the board approved a similar settlement with the district's classified bargaining unit. The annual cost of both settlements according to disclosure documents was \$6.8 million.*

On November 9, 2018, in response to the district's multiyear financial projections submitted to the county office with the projected costs of the district's agreements with the bargaining units, the county office issued a letter declaring a lack of going concern for the district. The county office directed the district to submit a board-approved solvency and fiscal stabilization plan by January 18, 2019, identifying solutions to implement ongoing expenditure reductions that eliminate the structural deficit.

The district's fiscal stabilization plan, submitted to the county office in January 2019, includes reductions of \$5.6 million in 2018-19, \$3.7 million in 2019-20, and \$3.7 million in 2020-21, but it is still projected to deficit spend in all three years of the projection. The district is not projected to meet the required minimum reserve in 2019-20 and is projected to have a negative unrestricted ending general fund balance in 2020-21.

- |      |   |                                     |                                     |                          |
|------|---|-------------------------------------|-------------------------------------|--------------------------|
| 3.7  | Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? . . . . .  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
|      | <i>District staff reported to FCMAT that the financial software system has a hard stop to prevent staff from processing requisitions or purchase orders when the budget is insufficient to support the expenditure; however, an override code may be used to permit processing. A review of budget reports indicates 80 account lines between object codes 4000-6999 with negative balances totaling \$540,091.</i> |                                     |                                     |                          |
| 3.8  | Does the district encumber and adjust encumbrances for salaries and benefits? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 3.9  | Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 3.10 | Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within statutory timelines established by Education Code? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |

#### 4. Cash Management

Yes    No    N/A

- |     |   |                                     |                          |                                     |
|-----|---|-------------------------------------|--------------------------|-------------------------------------|
| 4.1 | Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly? . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| 4.2 | Does the district reconcile all bank (cash and investment) accounts with bank statements monthly? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| 4.3 | Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known? . . . . . | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| 4.4 | Does the district have a reasonable plan to address cash flow needs during the current fiscal year? . . . . .   | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| 4.5 | Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds? . . . . .  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| 4.6 | If interfund borrowing is occurring, does the district comply with Education Code section 42603? . . . . .  | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 4.7 | If the district is managing cash in any funds through external borrowing, has the district set aside funds for repayment attributable to the same year the funds were borrowed? . . . . .                             | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |

#### 5. Charter Schools

Yes    No    N/A

- |     |   |                          |                          |                                     |
|-----|---|--------------------------|--------------------------|-------------------------------------|
| 5.1 | Are all charters authorized by the district going concerns? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
|-----|---|--------------------------|--------------------------|-------------------------------------|

5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including the issuance of formal communication to the charter, such as Notices of Violation? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code section 47604.32? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.4	Does the district have a board policy or other written document(s) regarding charter oversight? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓

## 6. Collective Bargaining Agreements

Yes No N/A

6.1	Has the district settled with all its bargaining units for the prior two fiscal year(s)? . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Has the district settled with all its bargaining units for the current year? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district's analysis of the 2017-18 and 2018-19 proposed agreements with both certificated and classified bargaining groups shows a cost of \$6.8 million and planned savings of approximately \$5.6 million from reduction in staff and other expenditure reductions; \$1.2 million short of the amount needed to support the agreement.</i>			
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)? . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
6.7	Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

## 7. Contributions and Transfers

Yes No N/A

7.1	Does the district have a board-approved plan to eliminate, reduce, or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Contributions from the unrestricted general fund are made to special education programs and routine restricted maintenance. Contributions to each program have increased each year over the past two years. The state provided flexibility beginning in 2008-09 reducing the required contribution to the RRMA. This flexibility was phased out beginning in 2015-16 through 2018-19. Beginning in 2019-20, districts are required to contribute the full 3% of general fund</i>			

expenditures and other financing uses. Alvord Unified did not take full advantage of the flexibility and contributed more than the minimum amount required to the routine restricted maintenance account in the current and two prior years. There is no board-approved plan to eliminate, reduce, or control any contributions/transfers.

- 7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance? . . . . . ☐ ☒ ☐

*The district's 2018-19 second interim report projects deficit spending in both fund 11 and fund 13. Fund balances are not projected to be negative in the current year; however, if deficit spending continues at the current rate, both funds will be negative in the subsequent years, and no transfers are reflected in the subsequent years.*

- 7.3 If any contributions/transfers were required for restricted programs and/or other funds in either of the prior two fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels? . . . . . ☒ ☐ ☐

## 8. Deficit Spending

Yes No N/A

- 8.1 Is the district avoiding deficit spending in the current fiscal year? . . . . . ☐ ☒ ☐

*The district's 2018-19 second interim report projects current-year deficit spending of \$3.5 million in the unrestricted general fund and \$4.2 million in unrestricted and restricted resources combined.*

- 8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . ☐ ☒ ☐

*The district's 2018-19 second interim multiyear financial projection shows projected deficit spending in the unrestricted general fund of \$3.5 million in 2018-19, \$5.8 million in 2019-20 and \$6.0 million in 2020-21. Deficit spending is projected in the combined unrestricted and restricted general fund of \$4.2 million in 2018-19, \$5.6 million in 2019-20 and \$5.9 million in 2020-21.*

- 8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending? . ☐ ☒ ☐

*On March 14, 2019, the board approved reductions of 54.8 certificated positions (for 2019-20), 25.5 classified positions (60 days after notice), four certificated management positions (for 2019-20) and four classified management positions (60 days after notice). However, following the incorporation of these reductions into the 2018-19 second interim, the multiyear financial projection indicates that the district needs an additional \$5.3 million in budget reductions to meet the required 3% minimum reserve for 2019-20. The district acknowledges that additional reductions are necessary to address and resolve the pattern of deficit spending.*

- 8.4 Has the district decreased deficit spending over the past two fiscal years? . . . . . ☐ ☒ ☐

*The district did not deficit spend in 2016-17, with an increase to the ending unrestricted general fund balance of \$2.9 million. In 2017-18, the district's unaudited actuals report showed deficit spending in the unrestricted general fund of \$2.7 million. The 2018-19 second interim report projects deficit spending in the unrestricted general fund increasing to \$3.5 million in 2018-19, \$5.8 million in 2019-20 and \$6.0 million in 2020-21.*

**9. Employee Benefits****Yes No N/A**

- 9.1 Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)? . . . . . ☒ ☐ ☐
- 9.2 Does the district have a plan to fund its liabilities for retiree health and welfare benefits? . . . . . ☐ ☒ ☐  
*The actuarial study dated August 13, 2018 estimates the district's total other post-employment benefits (OPEB) liability to be \$43,435,127 for the fiscal year ended June 30, 2018. The annual required contribution is \$4,858,308, and the district made payments of \$1,612,788 in 2017-18. The district funds its retiree health and welfare benefits program on a pay-as-you-go basis. It has not established an irrevocable OPEB trust with assets dedicated toward paying OPEB liabilities. Because there is no ongoing commitment to cover the unfunded liability, the district may not have an adequate plan to sufficiently fund the future liability.*
- 9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances? . . . . . ☐ ☒ ☐  
*The classified collective bargaining agreement states that employees may not accrue vacation time beyond June 30 without written approval of the superintendent. The agreement states that excess time accrued will be paid out at the end of the school year. However, the district has allowed vacation leave balances to accrue beyond the end of the fiscal year. According to the vacation leave balance report provided by the district, 181 employees had leave balances greater than 96 hours as of March 8, 2019. The liability for compensated absences as reported on the June 30, 2018 audit report was \$885,611. The district reported to FCMAT that it has discontinued the practice of paying out vacation balances and has communicated with employees that they will need to schedule vacations to reduce the balances.*
- 9.4 Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents? . . . . . ☐ ☒ ☐  
*District staff reported to FCMAT that the district sends a letter to retirees each year to verify continued eligibility for health and welfare benefits, but verification of eligibility for active employees and dependents has not been conducted.*
- 9.5 Does the district track, reconcile and report employees' compensated leave balances? . . . . . ☒ ☐ ☐

**10. Enrollment and Attendance****Yes No N/A**

- 10.1 Has the district's enrollment been increasing or remained stable for the current and two prior years? . . . . . ☐ ☒ ☐  
*District enrollment has declined in each but one year for the past decade. According to data from the California Department of Education (CDE), enrollment was 19,255 in 2016-17, 19,005 in 2017-18 and declined 573 students to 18,432 in 2018-19.*

Year	2016-17	2017-18	2018-19
Enrollment	19,255	19,005	18,432
Change	-211	-250	-573
Percent change	-1.08%	-1.30%	-3.01%

- 10.2 Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)? . . . . . ☒ ☐ ☐

10.3	Does the district track historical enrollment and ADA data to predict future trends? . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.8	Has the district planned for enrollment losses to charter schools? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved? . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>The district reported 1,529 total new and continuing outgoing transfers in 2017-18, which is approximately 8% of the enrollment for that year. The district reported new outgoing transfers of 450 students in 2018-19. Some outgoing transfers are difficult to disapprove, as the district is adjacent to Riverside Unified, which is a "district of choice" and does not require an application process to transfer. While Alvorad Unified extensively tracks all outgoing interdistrict transfers, it did not provide evidence that it follows established policy to ensure that only students meeting the required qualifications are approved. District staff indicated that beginning in 2018-19, transfers are more carefully reviewed, although Board Policy 5117, Interdistrict Attendance, was last updated on October 4, 2012.</i></p>				
10.10	Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

## 11. Facilities

Yes No N/A

11.1	If the district participates in the state's School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.3	Does the district properly track and account for facility-related projects? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>The district's enrollment has declined for several years, and current facility utilization averages 72% at its elementary schools, 66% at the middle schools, and 70% at the high schools.</i></p>				
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.6	Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.7	If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.8	Does the district have an up-to-date long-range facilities master plan? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

12. Fund Balance and Reserve for Economic Uncertainty		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including funds 01 and 17) as defined by criteria and standards? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? . . . . .  <i>The district's second interim report projects the 3% required minimum reserve in 2019-20 to be \$7.1 million, and the district falls short of meeting the reserve by \$5.3 million. In 2020-21, the district projects the minimum reserve to be \$7.2 million, with a shortage of \$11.5 million.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12.3	If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve? . . . . .  <i>The governing board approved four resolutions in March 2019 that reduced a total of approximately 88 certificated and classified positions (including management) for 2018-19 and 2019-20. Additional reductions totaling at least \$5.3 million will be necessary to meet the minimum reserve in 2019-20, with additional reductions needed for 2020-21, contingent upon the ongoing sustainability of the reductions identified in 2019-20.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12.4	Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? . . . . .  <i>The district's unrestricted general fund balance is projected to decrease in the subsequent two years, as shown on the district's 2018-19 second interim multiyear projection. The unrestricted ending fund balance is projected to decline by \$5.8 million in 2019-20, and to further decline by an additional \$6.0 million in 2020-21.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12.5	If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any assigned or committed reserves above the recommended reserve level? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
13. General Fund - Current Year		Yes	No	N/A
13.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures? . . . . .  <i>According to interviews with staff, as well as the latest negotiated settlement between Alvord Unified and the Alvord Educators Association dated November 1, 2018, the district has at least partially used one-time revenues to fund ongoing expenditures. The district received one-time funds for outstanding mandate claims of \$4.0 million in 2016-17, \$2.7 million in 2017-18 and \$3.3 million in 2018-19. The district did not provide evidence of a process or mechanism to ensure one-time revenues are not committed to ongoing expenditures.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
13.2	Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the current year? . . . . .  <i>The statewide average percentage of the unrestricted general fund expenditure budget allocated to salaries and benefits for unified districts was 87.06% in 2017-18 (the latest data available). In the current year, the percentage of the unrestricted general fund budget allocated to salaries and benefits at Alvord Unified is 88.2%.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
13.3	Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the two prior years? . . . . .  <i>The percentage of the district's unrestricted general fund expenditure budget allocated to salaries and benefits was 89.7% in 2016-17 and 88.2% in 2017-18. The</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

statewide average percentage in this area was 86.14% in 2016-17 and 87.06% in 2017-18.

- |      |   |                          |                          |                          |
|------|---|--------------------------|--------------------------|--------------------------|
| 13.4 | If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | ✓                        |
| 13.5 | Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds? . . . . .                                     | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 13.6 | Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 13.7 | Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

*The district elected to reduce or discontinue charging indirect costs to special education resources and did not charge the maximum approved rate to several other restricted resources in 2017-18. The maximum allowable rate is not budgeted in all restricted resources in 2018-19.*

#### 14. Information Systems and Data Management

Yes    No    N/A

- |      |   |                          |                          |                          |
|------|---|--------------------------|--------------------------|--------------------------|
| 14.1 | Does the district use an integrated financial and human resources system? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 14.2 | Can the system(s) provide key financial and related data, including personnel information, to help the district make informed decisions? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 14.3 | Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 14.4 | Is the district using the same financial system as its county office of education? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 14.5 | If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | ✓                        |
| 14.6 | If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | ✓                        |

#### 15. Internal Controls and Fraud Prevention

Yes    No    N/A

- |      |  |                          |   |                          |
|------|--|--------------------------|---|--------------------------|
| 15.1 | Does the district have controls that limit access to its financial system and include multiple levels of authorizations? . . . . .   | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|      | <i>The district uses the Galaxy financial system, which is hosted and supported by the Riverside County Office of Education. The county office administers and grants access to various modules and capabilities within the system at the request of the district. However, there are insufficient controls over the requesting and reviewing of various access and approval levels. The purchasing, invoicing and payment processes include access to many of the functions necessary to generate a payment granted to at least one user within the fiscal services department.</i> |                          |   |                          |
| 15.2 | Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually? . . . . .  | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |

*District staff indicated that terminations are communicated to all appropriate staff via email. However, the human resources manuals and documentation provided to FCMAT do not include or indicate that any formal process has been established, followed and/or annually updated to ensure departing employees, or other employment actions, are modified timely within the financial system.*

- 15.3 Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored? . . . . .

Accounts payable (AP). . . . . ☐ ☒ ☐

*A senior account clerk position responsible for processing accounts payable payments is vacant. As a result, the senior account clerk responsible for accounts receivable assumed some accounts payable duties. The accounting manager who supervises the senior account clerks has also assumed some accounts payable duties. The individual who processes accounts payable payments should not also have the authority to approve accounts payable payments. Accounts payable warrants are printed at the county office and shipped to the district. The employee who generated the payment receives and distributes the warrants to the vendors. An individual responsible for generating payments to vendors should not also be responsible for distributing those payments to vendors. Some employees can change vendor information in the financial system and also generate payments to vendors. These duties should also be segregated.*

Accounts receivable (AR) . . . . . ☐ ☒ ☐

*The senior account clerk responsible for accounts receivable issues invoices, collects payments, records payments into the financial system, and prepares the bank deposit. A second person verifies the amount deposited into the clearing bank account. The process of receiving payments should be segregated from the process of invoicing, recording payments into the financial system and preparing deposits.*

Purchasing and contracts. . . . . ☒ ☐ ☐

Payroll . . . . . ☐ ☒ ☐

*Although there are no comprehensive payroll policy and procedure manuals, the Payroll Department is actively working to update the payroll manuals and associated procedures. There are insufficient controls to ensure there are no unauthorized alterations to employee payments, especially for smaller amounts that would not likely be reviewed by the county office. Payroll staff do not reconcile the end-of-month payroll against either a spreadsheet or against the prior month payroll totals. Payroll warrants are printed at the county office and shipped to the district, where they are distributed by the payroll technicians. The individual responsible for generating payroll warrants should not distribute them. The department also uses a manual tracking mechanism for employee leave balance reporting, increasing the likelihood for errors and inefficiencies.*

Human resources . . . . . ☒ ☐ ☐

Associated student body (ASB) . . . . . ☐ ☒ ☐

*The district's 2016-17 and 2017-18 audit reports noted deficiencies in internal controls related to supporting documentation for receipts, lack of dual count of cash receipts, lack of timely deposits, lack of supporting documentation for disbursements, and lack of preapproval of disbursements.*

Warehouse and receiving . . . . . ☐ ☒ ☐

*The district has one warehouse and two warehouse staff who provide coverage and cross-coverage for the receipt, storage, delivery and inventory of district*

supplies and equipment. However, both positions can handle all site functions, and the warehouse lacks proper inventory controls over district assets. An inventory count is conducted once per year, but is completed by the same site staff that manage the inventory. In addition, the district's 2016-17 and 2017-18 audit reports noted a lack of adequate procedures to monitor, track, and update capital assets records.

- 15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year? . . . . . ☒ ☐ ☐
- 15.5 Does the district review and clear prior year accruals by first interim? . . . . . ☐ ☒ ☐  
*The district typically cannot clear all prior year accruals by the first interim reporting period; however, district staff indicated the goal was to clear them by second interim.*
- 15.6 Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year? . . . . . ☐ ☒ ☐  
*The district did not provide evidence that it follows a process to ensure that employee salary and benefit suspense accounts, along with other suspense accounts, are reconciled at regular intervals, such as interim reporting periods.*
- 15.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? . . . . . ☒ ☐ ☐
- 15.8 Does the district have processes and procedures to discourage and detect fraud? . . . ☐ ☒ ☐  
*While the district's board policy contains a section addressing fraud prevention and detection (BP 3400(a) & (b)), and the associated administrative regulation also outlines the definitions of fraud (AR 3400(a) & (b)), the policy falls short of outlining a formal process to detect fraud beyond simply discouraging its occurrence. Both the board policy and administrative regulation were last updated in 2008, and FCMAT found that the existence of these documents is not widely known or communicated among the staff.*
- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)? . . . . . ☐ ☒ ☐  
*The district website includes a fraud hotline link with a web address and a phone number for reporting suspected fraud, asset misappropriation and abuse. The district formerly had a contract with an outside service provider to handle fraud reporting, but it has since been terminated, and neither the website address nor the phone number are functional.*
- 15.10 Does the district have a process for collecting and following up on reports of possible fraud? . . . . . ☐ ☒ ☐  
*Board Policy and Administrative Regulation 3400 define and discourage fraud, and briefly outline staff responsibilities for investigating fraud. However, these documents do not thoroughly articulate a defined process for fraud information collection and review and have not been adequately or routinely communicated to district employees.*
- 15.11 Does the district have an internal audit process? . . . . . ☐ ☒ ☐  
*There is no formal internal audit department or function at the district. The district provided evidence of several ASB procedural audits that occurred in 2018, but no further routine audit processes were identified.*

**16. Leadership and Stability****Yes No N/A**

- 16.1 Does the district have a chief business official who has been with the district more than two years? . . . . . ☒ ☐ ☐
- 16.2 Does the district have a superintendent who has been with the district more than two years? . . . . . ☐ ☒ ☐  
*The superintendent began his tenure with Alvord Unified on July 1, 2018.*
- 16.3 Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet? . . . . . ☒ ☐ ☐
- 16.4 Is training on financial management and budget provided to site and department administrators who are responsible for budget management? . . . . . ☒ ☐ ☐
- 16.5 Does the governing board adopt and revise policies and administrative regulations annually? . . . . . ☒ ☐ ☐
- 16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff? . . . . . ☐ ☒ ☐  
*While the board has made progress in reviewing and updating board policies and administrative regulations, the process for communicating updates and changes districtwide remains inconsistent. The district maintains board policies and related regulations online; however, establishing formal and thorough communication of newly revised policies is an essential component of effective governance.*
- 16.7 Is training on the budget and governance provided to board members at least every two years? . . . . . ☒ ☐ ☐
- 16.8 Is the superintendent's evaluation performed according to the terms of the contract? . ☐ ☐ ☒  
*The superintendent's contract states that an evaluation will be performed at least once a year by May 15. The superintendent has not yet completed his first year of service.*

**17. Multiyear Projections****Yes No N/A**

- 17.1 Has the district developed multiyear projections that include detailed assumptions aligned with industry standards? . . . . . ☒ ☐ ☐
- 17.2 To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations? . . . . . ☒ ☐ ☐
- 17.3 Does the district use its most current multiyear projection in making financial decisions? . ☐ ☒ ☐  
*During site staff interviews, FCMAT determined that the multiyear projection is not regularly used as a guiding document or plan in making strategic fiscal and programmatic decisions. The projection is developed at the various budget reporting periods, but is not otherwise a focal point in the district's decision-making process.*
- 17.4 If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount? . . . . . ☒ ☐ ☐

**18. Non-Voter-Approved Debt and Risk Management****Yes No N/A**

- 18.1 Are the sources of repayment for non-voter-approved debt (such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others), stable, predictable, and other than unrestricted general fund? . . . . . ☐ ☒ ☐

*The district is managing cash flow needs in the 2018-19 fiscal year with the issuance of tax and revenue anticipation notes (TRANS). The district's cash flow projections show the district also anticipates the need for a TRANS in 2019-20. Without temporary borrowing, the district would not have sufficient cash resources to cover cash flow needs in 2018-19 or 2019-20. The Riverside County Office of Education downgraded the district's second interim report from qualified to negative. Because of the district's negative certification, the district will be unable to issue TRANS in 2019-20 unless the county office makes a determination that repayment of the TRANS is probable. Without significant board-approved reductions, it is unlikely that the county superintendent could determine that the district would be able to repay the TRANS in the 2019-20 fiscal year.*

- |      |  |                          |                          |                          |
|------|--|--------------------------|--------------------------|--------------------------|
| 18.2 | If the district has issued non-voter-approved debt, has its credit rating remained stable or improved in the current or prior two fiscal years? . . . . .  | <input type="checkbox"/> | <input type="checkbox"/> | ✓                        |
| 18.3 | If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 18.4 | If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues? . . . . . | <input type="checkbox"/> | <input type="checkbox"/> | ✓                        |

## 19. Position Control

**Yes      No      N/A**

- |      |  |                          |   |                          |
|------|--|--------------------------|---|--------------------------|
| 19.1 | Does the district account for all positions and costs? . . . . .   | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|      | <i>The district uses the position control module within the Galaxy financial system for budgeting salaries for regular, filled positions, but costs for extra duty, substitute and overtime costs are not maintained in Galaxy. At least two separate position control spreadsheets are also maintained, one by Human Resources and one by Business Services. The two spreadsheets are not reconciled regularly against each other or with the Galaxy position control module. FCMAT did not observe that the necessary processes exist to ensure accurate information on positional costs is transferred from the various tracking mechanisms to the district's budget.</i>   |                          |   |                          |
| 19.2 | Does the district analyze and adjust staffing based on staffing ratios and enrollment? . . . . .   | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|      | <i>The district does not use staffing ratios to analyze and adjust staffing based on fluctuating enrollment needs. Maximum class sizes are stipulated in the certificated bargaining agreement. Staffing and class sizes are determined by keeping each classroom at or below the maximum allowable size.</i>  |                          |   |                          |
| 19.3 | Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods? . . . . .   | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|      | <i>At least two separate position control spreadsheets are maintained in addition to the Galaxy position control system. The two are not reconciled regularly against each other, or with the Galaxy position control module. While attempts are made to ensure the various tracking mechanisms are in balance, this process is highly manual and redundant. Routine and cumbersome reconciliations would be necessary to ensure accuracy among the various disconnected tracking mechanisms, and a detailed communication protocol would need to be outlined and maintained between the departments. A spreadsheet extracted from the Galaxy financial system provided to FCMAT of current positions included over 68,000 individual line items, including split positions, making reconciliations a large undertaking.</i> |                          |   |                          |

- 19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board? . . . . . ☐ ☒ ☐
- While the governing board agendas include the approvals of new positions, a budget source is not consistently identified with approval and prior to recruitment. The cost, or fiscal impact, is included with the request and the requesting department provides a needs assessment, but this does not ensure that budgetary funds have been identified and are available for the duration of the position.*
- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted? . . . . . ☐ ☒ ☐
- FCMAT determined during site interviews that while the board approves new positions, as shown on recent board agendas, approvals and postings do not always occur in a consistent sequence. FCMAT identified instances where the recruiting process for a position began before board approval. The process of obtaining board approval before posting a position for recruitment is not followed in all cases.*
- 19.6 Has the district adopted staffing ratios for certificated, classified and administrative positions in the past three years, and is the district following those ratios? . . . . . ☐ ☒ ☐
- The district did not provide evidence of board-adopted staffing ratios for certificated, classified and administrative positions. The certificated bargaining agreement specifies maximum average class size limits by grade span and staffing is determined by ensuring alignment with the agreement.*
- 19.7 Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes? . . . . . ☒ ☐ ☐

## 20. Special Education

Yes No N/A

- 20.1 Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards? . . . . . ☒ ☐ ☐
- 20.2 Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)? . . . . . ☒ ☐ ☐
- 20.3 Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)? . . . . . ☒ ☐ ☐
- 20.4 Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)? . . . . . ☐ ☒ ☐
- Appropriate recording of all special education costs was identified by district staff as a priority, with Business Services reviewing the account coding of all special education invoices. However, the district discontinued charging indirect costs to the special education program and therefore does not capture all programmatic costs related to special education.*
- 20.5 Is the district's contribution rate to special education at or below the statewide average contribution rate? . . . . . ☐ ☒ ☐
- The district's unrestricted general fund contribution to special education was 71.7% of total special education expenditures in 2016-17, 76.3% in 2017-18, and is projected to be 79.0% for fiscal year 2018-19. According to the report titled "Coalition of Adequate Funding for Special Education; 2016-17 Maintenance of Effort Reports by Special Education Local Plan Area," the statewide average unrestricted general fund contribution to special education was 64.5% for the 2016-17 fiscal year (the latest data available).*

- 20.6 Is the district's rate of identification of students as eligible for special education comparable with countywide and statewide average rates? . . . . . ☒ ☐ ☐
- 20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? . . . . . ☐ ☒ ☐

*While the SELPA provides a periodic report to all participating districts regarding the maintenance of effort (MOE), the district indicated it only reviews this calculation at year-end.*

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**Total Risk Score, All Areas**
**40.1%**


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**Key to Risk Score**

*High Risk: 40% or more*

*Moderate Risk: 25-39%*

*Low Risk: 24% and lower*

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**Summary**

*The governing board is ultimately responsible for the district budget and for making sound financial decisions. Management is responsible for providing accurate financial information supported by trend analysis, budget assumptions and multiyear projections based on reliable data so the board can make these decisions.*

*Since 2016-17 the Riverside County Office of Education's oversight letters have cautioned the district about deficit spending, projected failure to meet reserve requirements, projected negative unrestricted general fund ending balances, declining enrollment, and cash availability. The 2017-18 audit report included a lack-of-going-concern opinion because of deficit spending in conjunction with unsustainable salary increases, declining enrollment, and inadequate cash flow. In November 2018, the county office issued a lack-of-going-concern determination in response to the district's updated multiyear financial projection submitted with the projected costs of the district's collective bargaining agreements.*

*This Fiscal Health Risk Analysis has identified multiple areas of concern that contribute to the district's fiscal distress. Of significant concern is the year-over-year loss of revenue due to the district's steady decline in enrollment, which is projected to continue into the next two years. Enrollment declined 3.01% from 19,005 in 2017-18 to 18,432 in 2018-19, a decrease of 573 students. In response to declining enrollment, districts must make reductions in staffing and other operating expenses to compensate for the loss of revenue. The district is considering ways to reverse the declining enrollment trend such as reducing the number of outgoing interdistrict transfer requests approved and improving programs and services to attract students so they will remain in district schools. The district has also offered a Supplemental Employee Retirement Plan (SERP) and approved layoffs of management, certificated, and classified employees to reduce staffing.*

*Also of great concern is the rapid erosion of the district's unrestricted general fund ending balance because of ongoing deficit spending. The district ended the 2016-17 fiscal year with a surplus, but deficit spending began in the 2017-18 fiscal year and is projected to continue through the last year of the projection, 2020-21. There is no board-approved plan that fully eliminates deficit spending in the current and two subsequent years.*

*Although the district's multiyear financial projection submitted with its 2018-19 revised adopted budget indicated deficit spending in the current and first subsequent fiscal years, the district approved a settlement with its certificated and classified bargaining units that was projected to cost \$6.8 million. As a result of the settlement, projections included with the disclosure documents indicated that the district would not meet the reserve requirement in the current fiscal year and would have a negative unrestricted ending fund balance in 2019-20 and 2020-21.*

*The district's multiyear financial projections submitted with its 2018-19 second interim report show the district's unrestricted general fund balance will decline from \$11,092,974 at the start of the 2018-19 fiscal year to -\$4,228,190 at the end of the 2020-21 fiscal year. This includes projected reductions to certificated and classified salaries of \$6.5 million in 2019-20 and \$1.1 million in 2020-21, which may not be achievable. Even with these proposed reductions, the district is not projected to meet the reserve requirement in 2019-20 and is projected to have a negative unrestricted general fund ending balance in 2020-21.*

*If the district continues to spend more than it receives, it will deplete its cash resources. The district is managing its cash flow needs for 2018-19 through temporary borrowing. The district issued \$10,890,000 of Tax Revenue Anticipation Notes (TRANS) in July 2018, which will be fully repaid by June 30, 2019. The district's general fund cash balance is not projected to be sufficient to cover cash flow needs throughout the 2018-19 fiscal year without TRANS borrowing.*

*The increasing cost of providing programs and services to special needs students also contributes to the district's declining fiscal position. Unrestricted general fund contributions to the special education program have increased an average of 21.7% per year over the last four years. The contribution to special education has grown from \$17 million in 2015-16 to a projected \$27 million in 2018-19. District staff reported they have a new process to monitor staffing and caseload, requests for one-on-one aides and identification of students for programs.*

*The district projects deficit spending in both fund 11 and fund 13 in the current year. If deficit spending continues in these funds, transfers from the general fund to either or both funds may be required, further deteriorating the district's financial condition.*

*Because of declining enrollment, district schools are not at capacity loads. Student enrollment to capacity is 70% for the district overall with only five of 23 sites exceeding 80% capacity and three sites at less than 60% capacity. This means that the district incurs costs to maintain more facilities and sites than necessary to adequately serve its enrolled population.*

*The district's significant risk factors include declining enrollment, deficit spending, substantial reductions in fund balance, inadequate reserve levels, approval of bargaining agreements that exceed the district's ability to support them, large increases in contributions to restricted programs (especially special education), and inadequate cash balances. These factors must be addressed and remedied to avoid further erosion of the district's reserves. Failure to act quickly and decisively may result in fiscal insolvency and loss of local control.*