

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Amador County Office of Education

Fiscal Health Risk Analysis

October 29, 2019



Michael H. Fine
Chief Executive Officer



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About FCMAT

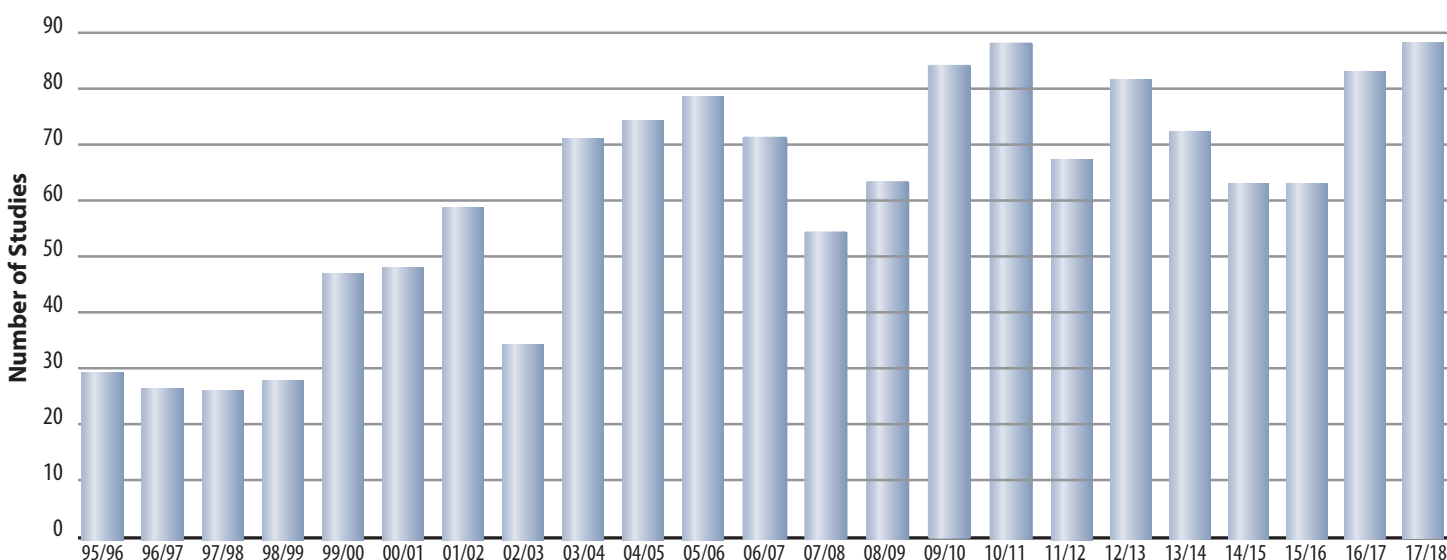
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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) 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.

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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.

The FHRA tool was developed for review of a district with oversight provided by the COE. In this study, the reviewed entity is the county office of education (COE) and the oversight agency is the California Department of Education (CDE). Most of the review remains applicable and relevant; however, when a question refers to “district,” this report will mean the COE and when the question refers to “COE,” this report will mean the CDE.

Study Guidelines

FCMAT entered into the study agreement with the Amador County Office of Education on May 15, 2019.

FCMAT visited the county office on May 23-24, 2019 to conduct interviews, collect data and review documents. Supporting documentation was received from the county office through August 29, 2019. 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:

John Von Flue
FCMAT Chief Analyst

Debbie Riedmiller, CFE
FCMAT Intervention Specialist

Scott Sexsmith
FCMAT Intervention Specialist

Laura Haywood
FCMAT Technical Writer

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

District Overview

Located in the Sierra Nevada foothills approximately 45 miles southeast of Sacramento, the Amador County Office of Education and the Amador County Unified School District serve the students of Amador County. The county covers 593 square miles and includes the cities of Jackson, Lone, Sutter Creek, and several other small, rural communities. The district and the county office serve approximately 4,100 students in two comprehensive high schools, one alternative high school, two middle schools, six elementary schools, one charter school, and one county community school. In addition, state preschool, career technical education, independent study, adult education, and special education programs are provided. Amador is one of only seven single-district counties in the state. The district and the county office are governed by a single five-member board of trustees, and a single superintendent served both agencies until January 2019, when a newly elected county superintendent took office. The agencies also share business services, human resources, and other administrative and support staff.

The county office has experienced deficit spending in the unrestricted general fund over the 2016-17 and 2017-18 fiscal years. The 2017-18 unaudited actuals report indicated that the county office had not met the required minimum reserve for economic uncertainties. The district and the county office each filed a qualified certification for their 2018-19 first interim financial reports. The CDE concurred with the district's qualified certification; however, it changed the county office's certification from qualified to negative. The district filed a qualified certification and the county office filed a negative certification for their 2018-19 second interim reports.

Under the 2018-19 State Budget Act, because the county office had a negative 2018-19 second interim report certification, FCMAT performed an FHRA to determine the level of risk for insolvency. Because the district's and the county office's finances are so intertwined, FCMAT performed an FHRA for the district as well. This report is a result of the FHRA analysis for the COE. Another FHRA analysis report will be issued for the district.

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: Amador County Office of Education

Dates of Fieldwork: May 23-24, 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 type="checkbox"/>
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 type="checkbox"/>	<input type="checkbox"/>
1.3	Was the district’s most recent independent audit report free of material findings?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Has the district corrected all reported audit findings from the current and past two audits?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The 2015-16 audit report contained a finding related to ongoing deficit spending and decline in available reserves. The county office has not corrected its pattern of deficit spending.</i>			
1.5	Has the district had the same audit firm for at least three years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Stephen Roatch Accountancy Corporation completed the 2015-16 audit and Crowe Horwath LLP completed the 2016-17 and 2017-18 audits.</i>			

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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The county office did not provide written budget assumptions to FCMAT and detailed assumptions were not included in the 2018-19 adopted budget board presentations.</i>			

- 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? . . .
The county office did not provide an LCFF calculation to FCMAT for the county office or the charter school.
- 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 county office did not provide documentation requested to support a response to this question.
- 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 county office’s restricted program carryover amounts and restricted ending fund balances have increased from 2015-16 to 2016-17 and then decreased in 2017-18, indicating that the COE is not strategically spending restricted funds before unrestricted funds.
- 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?
- 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?
The county office did not provide evidence that grants are evaluated for their potential multiyear impact on the county office’s unrestricted general fund prior to acceptance.
- 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 county office does not have a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them.

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

- 3.1 Are actual revenues and expenses consistent with the most current budget?
Several expenditure categories, including administrator salaries, classified support salaries, retiree benefits, other benefits, supplies, services, and communications are underbudgeted and revenues may be overbudgeted.

- 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?

The county office does not include budget assumptions with interim report board presentations.

- 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?

Budget revisions for 2017-18 first interim following settlement do not align with calculated costs from disclosure documents.

- 3.5 Does the district provide a complete response to the variances identified in the criteria and standards?

The county office provided incomplete responses to the variances identified in the criteria and standards as follows:

2018-19 Adopted Budget

Not Met Criteria	District Response	Issue
4B. Other State Revenues Decrease of 7.83% in 2018-19.	Other state revenue continues to exceed past projections.	Response addresses an increase in other state revenue; however, a decrease is projected in 2018-19.
4B. Books and Supplies Decrease of 38.11% in 2018-19. Decrease of 11.69% in 2019-20.	2017-18 carryover and one-time expenses removed for the budget year.	Response addresses the decrease in budgeted expenditures for 2018-19 but does not address the decrease in 2019-20.
S8. Status of Labor Agreements	Response not complete.	The response indicated status of negotiations but did not provide any of the additional detail required in the section.

2018-19 First Interim

Not Met Criteria	District Response	Issue
4A. Books and Supplies Increase of 107% in 2018-19; increase of 64.7% in 2019-20; increase of 86.5% in 2020-21.	2017-18 carryover amounts included in first interim projection.	Response addresses the increase in 2018-19 but does not address the increases in 2019-20 and 2020-21.
4A. Services and Other Operating Expenditures Increase of 32.3% in 2018-19; 27.3% in 2019-20; and 31.2% in 2020-21.	2017-18 carryover amounts included in first interim projection.	Response addresses the increase in 2018-19 but does not address the increases in 2019-20 and 2020-21.
S8. Status of Labor Agreements	Response not complete.	The response indicated status of negotiations but did not provide any of the additional detail required in the section.

2018-19 Second Interim

Not Met Criteria	District Response	Issue
S8. Status of Labor Agreements	Response not complete.	The response indicated status of negotiations but did not provide any of the additional detail required in the section.

- 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?

The county office did not provide the requested documentation to support whether deficiencies were identified and addressed.

- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?
- County office staff reported that there is a hard stop in the financial system to prevent processing requisitions or purchase orders when the budget is insufficient to support the expenditure. However, staff indicated that they are able to override the hard stop and complete the transaction. As of the 2018-19 second interim reporting period, there were 168 account lines with negative balances totaling -\$747,328.*
- 3.8 Does the district encumber and adjust encumbrances for salaries and benefits?
- The county office encumbers and adjusts encumbrances for salaries and benefits for regular positions; however, salaries and benefits for substitute, overtime, and extra time are not encumbered.*
- 3.9 Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum?
- FCMAT reviewed the general ledger reports for 2017-18 and 2018-19 through January 31, 2019 and found that several payroll and benefit accounts in multiple funds and resources have not been reconciled.*
- 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?

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?
- 4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?
- The county office did not provide supporting documentation for the reconciliation of all accounts.*
- 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?
- The county office prepares cash flow projections covering 12 months out.*
- 4.4 Does the district have a reasonable plan to address cash flow needs during the current fiscal year?
- 4.5 Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?
- 4.6 If interfund borrowing is occurring, does the district comply with Education Code section 42603?
- 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?

5. Charter Schools	Yes	No	N/A
5.1 Are all charters authorized by the district going concerns?	✓	<input type="checkbox"/>	<input 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"/>
<i>The county office provided no evidence of oversight of the Shenandoah Valley Charter School; however, the school was closed on June 30, 2019.</i>			
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"/>
<i>The county office provided no evidence of oversight of the Shenandoah Valley Charter School; however, the school was closed on June 30, 2019.</i>			
5.4 Does the district have a board policy or other written document(s) regarding charter oversight?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>The county office provided no evidence of a policy or other documentation regarding charter oversight procedures.</i>			
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"/>
<i>The county office provided no evidence of oversight of the Shenandoah Valley Charter School; however, the school was closed on June 30, 2019.</i>			
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"/>
<i>For the 2018-19 fiscal year: Tentative agreements with the classified unit are currently under review. No formal negotiations have occurred with the certificated bargaining unit.</i>			
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"/>
<i>Budget revisions for 2017-18 first interim following settlement do not align with calculated costs from disclosure documents.</i>			
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 2017-18 bargaining agreement disclosure documents state that the cost of salary schedule increases will be paid for with ending fund balance, a one-time source of funds.</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"/>
<i>The 2017-18 statutory COLA was 1.56%.</i>			

For the special educators bargaining unit, the county office's AB 1200 disclosure identifies settling at 1.5% salary increase and a 5.24% increase in health/welfare plans for a total increase of 1.88%. However, the settlement was actually a 3% salary increase effective midyear (1/1/18). The health/welfare increase was effective retroactively to 7/1/17.

For the classified bargaining unit, the county office's AB 1200 disclosure identifies settling at the same 1.5% salary and 5.24% health/welfare increase; however, this is calculated at a total increase of 1.98%. Again, the increase in salary was applied as a midyear 3% increase.

Unrepresented employees received the same increases to salary and health/welfare with the total increase calculated at 1.92%.

While the midyear application of salary increases has a 1.5% effect on the budget, the impact on future budgets will be the full 3%.

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|-----|--|-------------------------------------|--------------------------|-------------------------------------|
| 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"/> | <input checked="" 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 checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6.9 | Is the governing board's action consistent with the superintendent's and CBO's certification? | <input checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> |
|-----|--|--------------------------|-------------------------------------|--------------------------|

The county office makes contributions from the unrestricted general fund to the routine restricted maintenance account (RRMA), special education, and to a locally restricted resource. The county office's 2018-19 second interim report projects contributions to increase in the two subsequent years. The county office contribution to the RRMA is greater than the required amount. 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? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
|-----|---|--------------------------|-------------------------------------|--------------------------|

The 2018-19 county office second interim report projects deficit spending of \$139,196 in Fund 12 in the 2018-19 fiscal year. If this level of deficit spending continues in the 2019-20 fiscal year, the fund balance will be negative. The county office has not included transfers from the unrestricted general fund to Fund 12 in its multiyear projection to cover any negative fund balance.

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|-----|--|-------------------------------------|--------------------------|--------------------------|
| 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? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|-----|--|-------------------------------------|--------------------------|--------------------------|

8. Deficit Spending		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year? <i>The county office's 2018-19 second interim report projects a deficit of \$642,910 in its combined unrestricted and restricted resources.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? <i>The county office's 2018-19 second interim report projects a deficit of \$311,432 in 2019-20 and a deficit of \$450,754 in 2020-21 in its combined unrestricted and restricted resources.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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? <i>The board has not approved and implemented a plan to reduce and/or eliminate deficit spending.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8.4	Has the district decreased deficit spending over the past two fiscal years? <i>The 2016-17 unaudited actuals report showed an unrestricted general fund deficit of \$136,737; the 2017-18 unaudited actuals report showed an unrestricted deficit of \$550,950; and the 2018-19 second interim report projects an unrestricted deficit of \$188,952. The county office decreased deficit spending from the 2017-18 fiscal year to 2018-19, but deficit spending in 2018-19 increased over the 2016-17 fiscal year.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits?.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.5	Does the district track, reconcile and report employees' compensated leave balances?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.3	Does the district track historical enrollment and ADA data to predict future trends?	<input checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.8	Has the district planned for enrollment losses to charter schools?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" 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"/>	<input checked="" type="checkbox"/>
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"/>	<input checked="" 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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.3	Does the district properly track and account for facility-related projects?	<input checked="" type="checkbox"/>	<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"/>	<input checked="" type="checkbox"/>
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	<input checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>No evidence was provided to verify that Williams inspections were completed.</i>			
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"/>	<input checked="" type="checkbox"/>
11.8	Does the district have an up-to-date long-range facilities master plan?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

The facilities master plan was last completed and updated in 2013. The process has just begun to review and update the plan.

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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The county office's 2018-19 second interim report projects a reserve for economic uncertainties of -0.82%. The required minimum reserve for the county office is 4%. The required reserve amount is \$532,537 and the projected reserve is negative \$109,624. The county office falls short of the reserve requirement by \$642,161.</i>			
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

The county office's 2018-19 second interim report projects a reserve of -3.25% in 2019-20 and -6.56% in 2020-21. The required minimum reserve for the county office is 4%. The required reserve for 2019-20 is \$518,328 and the county office's available reserve is -\$421,057, a shortfall of \$939,385. The required reserve for 2020-21 is \$531,268 and the county office's available reserve is -\$871,810, a shortfall of \$1,403,078.

- 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?

The county office board has not yet approved a plan to restore the reserve.

- 12.4 Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?

The projected unrestricted fund balance is decreasing from -\$109,621 in 2018-19 to -\$421,057 in 2019-20, and to -\$871,810 in 2020-21.

- 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?

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?

The county office did not provide evidence of a process to ensure one-time revenues are not committed to ongoing expenditures. The county office's 2015-16 audit report contained a finding regarding deficit spending and the use of one-time funds for ongoing expenditures and noted a similar finding from 2014-15. The 2017-18 bargaining agreement disclosure documents state that the cost of ongoing salary schedule increases will be paid for with ending fund balance, a one-time source of funds.

- 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?

- 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?

- 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)?

- 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?

- 13.6 Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?

- 13.7 Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource?

The county office's 2017-18 unaudited actuals report indicates that the maximum allowable indirect cost was not charged to the following restricted resources: 3385, 6500, 6520, and 7338. The 2018-19 adopted budget indicates indirect costs are not budgeted at the full maximum allowable rate in the following restricted resources: 3310, 3385, and 6500.

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"/>
	<i>The COE is on a financial system different and separate from its oversight agency, the California Department of Education (CDE).</i>			
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"/>
	<i>The COE is on a financial system different and separate from its oversight agency, the CDE. Further, there is no automated interface with the financial system used by the CDE.</i>			
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"/>
	<i>The COE is on a financial system different and separate from its oversight agency, the CDE. Further, no direct access is provided to the CDE to allow for oversight, review and assistance.</i>			

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"/>
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"/>
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?			
	• Accounts payable (AP)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts receivable (AR)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Purchasing and contracts	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Payroll	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Human resources	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Associated student body (ASB)	<input type="checkbox"/>	<input type="checkbox"/>	✓
	• Warehouse and receiving	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 15.5 Does the district review and clear prior year accruals by first interim? ✓
In 2017-18, prior year accruals were cleared by year end. As of 2018-19 second interim, accruals have not been cleared and balances remain in multiple funds and resources.
- 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? ✓
A review of the general ledger reports for 2017-18 and 2018-19 through January 31, 2019 indicates that salary and benefit suspense accounts in multiple funds and resources have not been reconciled.
- 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? ✓
- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)? ✓
No independent and/or anonymous reporting process is in place.
- 15.10 Does the district have a process for collecting and following up on reports of possible fraud? ✓
No formal process is in place to follow up on questionable activities
- 15.11 Does the district have an internal audit process? ✓
Neither the district nor the county office has an internal audit process. A system of internal controls and segregation of duties limits the exposure to errors, omissions and fraud.

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? ✓
The current CBO started in the position in July 2017. Having no prior CBO experience, the CBO has enrolled in professional development programs and trainings.
- 16.2 Does the district have a superintendent who has been with the district more than two years? ✓
The county superintendent was elected into the position effective January 2019. Prior experience reportedly included administrative roles in special education, K-12 school sites, and higher education; auditor for the Department of Defense; and five years as a special education teacher.
- 16.3 Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet? ✓
Due to schedule conflicts with the superintendent also holding a teaching position and a shared administration with the county school district, meetings with staff are random, impromptu and ad hoc in nature.
- 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?
- 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? . . .

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

- 17.1 Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?
The county office did not provide detailed assumptions to FCMAT and detailed assumptions were not included in the 2018-19 first or second board presentations.
- 17.2 To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?
The county office did not provide an LCFF calculation.
- 17.3 Does the district use its most current multiyear projection in making financial decisions? . .
The county office did not provide evidence that the most current multiyear projection is used in making financial decisions. The 2018-19 second interim multiyear projection shows ongoing deficit spending, but the board has not yet implemented a plan to eliminate deficit spending. Although the multiyear projection shows ongoing deficit spending, the superintendent came to agreement with the bargaining unit for salary increases; however, the fiscal agent assigned by the CDE rescinded the agreement.
- 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?
As of July 2019, the COE has a capital lease balance (principal and interest) of \$621,041 for which payments are budgeted through 2027 out of the unrestricted general fund.
- 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?
- 18.3 If the district is self-insured, does the district have a recent (every two years) actuarial study and a plan to pay for any unfunded liabilities?
- 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?

19. Position Control

Yes No N/A

- 19.1 Does the district account for all positions and costs?
The county office does not use the position control module within its financial system to maintain salary and benefit cost data. Instead, that data is maintained on a spreadsheet. Costs for substitute, overtime, and extra duty are not accounted for.
- 19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment? . . .
The county office did not provide documentation or evidence that it analyzes and adjusts staffing based on staffing ratios and enrollment.
- 19.3 Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?
- 19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?.
The county office did not provide evidence or documentation to substantiate that it identifies a budget source for each new position before the position is authorized by the governing board.
- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?
The county office did not provide evidence or documentation to substantiate that the governing board approves all new positions and extra assignments before positions are posted.
- 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 county office has not adopted staffing ratios for classified or administrative positions.
- 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?
Teacher and aide staffing ratios and class sizes appear to be monitored and adjusted; however, the class load document was undated and identified staffing at varying caseloads. The document showed caseloads ranging from six to 18 for special day classes (SDC), from 19 to 33 for resource specialist program (RSP)/SDC, from 42 to 54 for occupational therapists, and from 42 to 53 for speech-language pathologists. As only one, undated staffing/caseload document was provided, FCMAT was unable to compare staffing from period to period and determine if or when adjustments are made.
- 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)?

Financial records indicate that variations and inconsistencies occurred in position funding whereas several positions such as occupational therapists, psychologists and administration would change in and out of special education resources from one year to the next.

The county office's unaudited actuals report indicates that resources 3310 and 6500 were not charged full indirect costs for the 2016-17. The county office's 2017-18 unaudited actuals report indicates that the maximum allowable indirect cost was not charged to the following restricted resources: 3385, 6500, 6520, and 7338. The 2018-19 adopted budget indicates indirect costs are not budgeted at the full maximum allowable rate in the following restricted resources: 3310, 3385, and 6500.

20.5 Is the district's contribution rate to special education at or below the statewide average contribution rate?

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?

Total Risk Score, All Areas **46.4%**

Key to Risk Score

High Risk: 40% or more

Moderate Risk: 25-39%

Low Risk: 24% and lower

Summary

County offices of education (COEs), inclusive of both the county board of education and the county superintendent of schools, have the authority and/or responsibility to provide services to the district(s) in their county. The COE has the duty to administer county programs, including county community and juvenile court schools, and may operate special education classes, establish county charter schools, and provide other services to districts. In single-district counties, such as Amador, the fiscal resources and staffs to perform activities of the COE are much entwined with the district. Nonetheless, the Amador County Office of Education and the Amador County Unified School District are separate entities and responsible for their own governance and fiscal solvency.

The overall fiscal health risk score for Amador County Office of Education places the COE at high risk of insolvency. The score is in alignment with expectations as the county office 2018-19 second interim certification was negative.

Areas of concern attributed to fiscal risk are identified throughout the FHRA; however, the most impactful and concerning of the findings are as follows:

- The county office's 2018-19 second interim report projects significant deficit spending in the current year, and the deficit is forecasted to continue in the out years. This follows two years of deficit spending in 2016-17 and 2017-18. As a result of the deficit spending and failure to respond, the COE is unable to maintain its required reserve for economic uncertainties and projects an increasingly negative reserve in the future fiscal years.
- Structure and prioritization practices are key to good budget development and monitoring. FCMAT found that the COE does not adhere to a budget development calendar, does not produce detailed assumptions when developing its budget, and does not evaluate the impact of accepting grants and other restricted funds. In addition, if these types of funds are accepted, the COE does not prioritize the use of the restricted funds over unrestricted funds.
- Once the budget is developed, the COE must continue to monitor and update it to ensure the budget aligns with expected revenues and that the expenditures are controlled within the budgeted allocations. FCMAT found several expenditure categories out of alignment as budget adjustments were not identified, explained and made to the adopted budget; nor was the budget used to limit expenditures.
- The budgeting issues continue in the multiyear projections. When developing the out year projections, no detailed assumptions were identified, approved and recorded. Therefore, it appears the long-term effects of current decisions and trends are not fully considered.
- At the time of this review, Amador COE had not finalized agreements with its bargaining units for 2018-19. In reviewing prior settlements, FCMAT found no evidence that the COE had conducted a presettlement analysis of the effects of bargaining, nor did it make accurate budget adjustments after the agreements were settled. The disclosure for the 2017-18 agreement identified a total compensation increase higher than the funded COLA for the year, and the ongoing impact will be twice the funded COLA for the year. Having accurate information as to the effects and impact of agreements is necessary for prudent fiscal planning.
- In addition to staff compensation, it is crucial for the county office to control staffing levels. FCMAT was provided no evidence that staffing control systems are in place to identify appropriate staffing ratios, to account for positions and to adjust staffing levels based on student enrollment and need.
- An increased risk of fiscal insolvency is also found when the overseeing agency does not have clear and ready access to review the financial system. This situation is found at the Amador COE. The COE and the CDE do not share financial systems and there is no ability for the CDE to interface with or access the county's financial system.

The county office must take immediate measures to restore fiscal solvency. To do so, the county board and county superintendent must address their deficit spending and create a plan to balance the budget and restore the fiscal reserve. The county office must ensure that systems are in place to provide accurate and timely information to make informed decisions and to ensure fiscal controls are implemented. Failure to act quickly and decisively may result in fiscal insolvency; the consequences of becoming insolvent are severe and result in the loss of local control and governance.