



# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

CSIS California School Information Services

# Oakland Unified School District

## Fiscal Health Risk Analysis

August 15, 2017



**Michael H. Fine**  
Chief Executive Officer







CSIS California School Information Services

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August 15, 2017

Kyla Johnson-Trammell, Ed.D., Superintendent  
Oakland Unified School District  
1000 Broadway, Ste. 680  
Oakland, CA 94607-4099

Dear Superintendent Johnson-Trammell:

In April 2017, the Oakland Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered an agreement for a study to perform the following:

Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis, and determine the district's risk rating

This report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Oakland 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

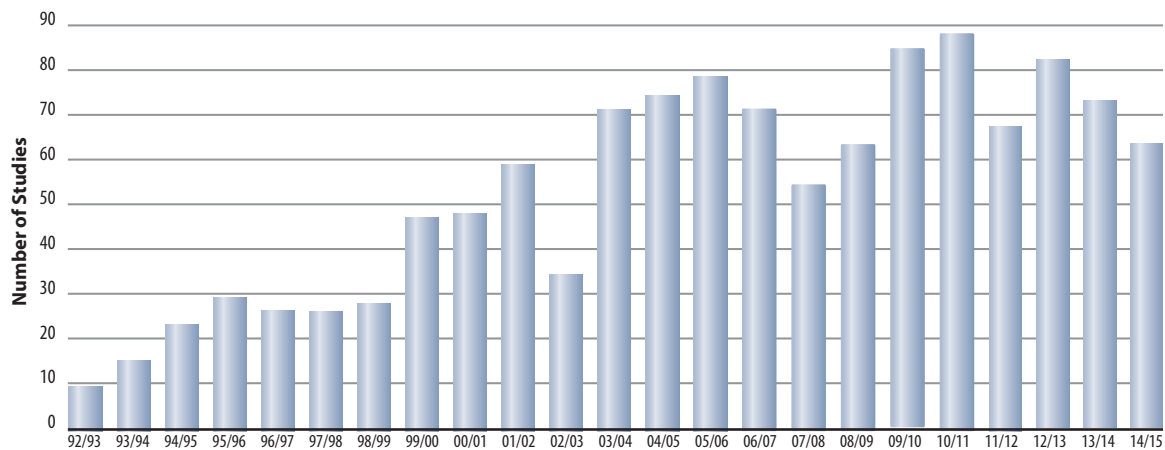
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

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

Located in the Bay Area of Northern California, the Oakland Unified School District serves more than 49,000 students in 86 district-operated schools and 37 authorized charter schools.

Approximately half of the district's students speak a foreign language at home, and 30 percent qualify as English language learners. Eligibility for free and reduced-price lunches is 72.5 percent.

In May 2017, the district entered into an agreement with the Fiscal Crisis and Management Assistance Team (FCMAT) for a study that would perform the following:

Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis, and determine the district's risk rating.

## Study Team

The study team was composed of the following members:

Michelle Giacomini  
FCMAT Chief Management Analyst  
Petaluma, CA

Leonel Martínez  
FCMAT Technical Writer  
Bakersfield, CA

Deborah Deal, CICA, CFE  
FCMAT Intervention Specialist  
Los Angeles, CA

Linda Grundhoffer  
FCMAT Consultant  
Danville, CA

## Study Guidelines

FCMAT visited the district on May 30 through June 1, 2017 to review data, interview employees and collect information. This report is the result of those activities.

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.



# Fiscal Health Risk Analysis

## Key Fiscal Indicators for K-12 Districts

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis to evaluate key fiscal indicators that may help measure a school district's risk of insolvency in the current and two subsequent fiscal years.

The Fiscal Health Risk Analysis should be viewed as a snapshot in time. FCMAT used the district's 2016-17 third interim budget as its baseline in conjunction with financial reports prepared throughout the 2016-17 fiscal year. At the time of FCMAT's fieldwork, the district was completing the 2017-18 adopted budget, but the details were not known or adopted by the board, so the information is not included in this report. In fact, at that time, the district had developed a plan to address the 2017-18 shortfall; however, the governing board had not formalized approximately \$9.3 million in budget adjustments necessary to ensure that the district maintains its required reserve level for 2017-18. FCMAT has added a "Subsequent Events" section at the end of this report that describes the major components of the district's 2017-18 adopted budget revenue increases and expenditures reductions. Even so, that information is not part of this report as it has not been substantiated or reviewed in detail.

Any evaluation of financial data or other organizational issues have inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment; cost-of-living adjustments; forecasts for utilities, supplies and equipment; changing economic conditions at the state, federal and local levels; and changes in organization or key leadership positions.

The presence of any single criterion is not necessarily an indication of a district in fiscal crisis. However, districts that answer "No" to seven or more of the 20 key indicators may have cause for concern and could require some level of fiscal intervention. The more indicators identified, the greater the risk of insolvency or fiscal issues. Identifying issues early is the key to success when it comes 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.

A district must continually update its budget as new information becomes available both from within the district and from other regulatory agencies. This is particularly true as the Local Control Funding Formula nears full implementation. Federal and state factors such as a slowdown in economic factors and increases in employee pension costs erode the district's unrestricted general fund. Local factors including the impact of declining enrollment, emerging charter schools and increases in contributions to special education are difficult to control and manage.

Each of the 20 key indicators below has several questions. FCMAT's response is based on documentation provided by the district and interviews with staff. Detailed responses are summarized for each section in its entirety.

Although this assessment may not indicate that the district may be in fiscal crisis, this analysis is one measure of several dimensions of fiscal health and risk.

## 1. Deficit Spending

- Is the district avoiding deficit spending in the current year? No
- Is the district avoiding deficit spending in the two subsequent fiscal years? No
- Has the district decreased or eliminated deficit spending over the past two fiscal years? No
- Is deficit spending covered by fund balance, ongoing revenues, or expenditure reductions? Yes
- Has the board approved a plan to eliminate deficit spending? No

Deficit spending occurs when the district spends more in current expenses than current revenue. A structural deficit occurs when the district incurs a net decrease in fund balance following interfund transfers and contributions to restricted programs. Planned deficit spending occurs when the district has excess reserves. Beyond these planned events, the district needs to make budgetary adjustments to eliminate deficit spending to maintain appropriate reserve levels within the fund balance.

When analyzing deficit spending, the team focused on the unrestricted general fund because most restricted programs are self-supporting. If not, the unrestricted general fund makes a contribution to balance the restricted resource, also referred to as encroachment.

The following table shows the district's unrestricted general fund in several of the most recent reporting periods based on the following reports provided by the district.

<b>OUSD - UNRESTRICTED ANALYSIS</b>	<b>Unaudited Actuals 2015-16</b>	<b>Adoption Budget 2016-17</b>	<b>First Interim 2016-17</b>	<b>Second Interim 2016-17</b>	<b>Third Interim 2016-17</b>
BEGINNING BALANCE	\$16,133,721	\$17,559,526	\$12,063,851	\$12,063,851	\$12,063,851
AUDIT ADJUSTMENTS	233,568	-	-	392,864	392,864
REVENUES	395,830,186	404,053,233	403,850,246	405,043,619	405,212,350
EXPENDITURES	333,429,050	337,304,882	336,222,287	332,576,140	335,675,742
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES	\$62,401,136	\$66,748,351	\$67,627,959	\$72,467,480	\$69,536,608
TRANSFERS IN	2,328,377	564,067	735,130	735,130	847,032
TRANSFERS OUT	3,361,244	1,619,490	3,918,860	3,918,860	4,468,860
CONTRIBUTIONS TO RESTRICTED PROGRAMS	(65,671,705)	(65,564,294)	(65,530,184)	(70,462,421)	(69,940,024)
NET INCREASE (DECREASE) IN FUND BALANCE	(4,303,437)	128,634	(1,085,954)	(1,178,672)	(4,025,244)
ENDING BALANCE	\$12,063,851	17,688,160	10,977,897	11,278,044	8,431,471

Based on this information, the district has a structural deficit in each reporting period except the 2016-17 adopted budget. As noted in section four below, the district overestimated enrollment and average daily attendance (ADA) at budget adoption and was not corrected until first interim 2016-17. Additionally, the ending fund balance has decreased substantially over this period of time. This is discussed in depth in section two below.

At the time of fieldwork, the governing board has not approved a plan to eliminate deficit spending or to address the structural deficit for 2017-18 and beyond. Although the district has developed a plan to address the 2017-18 shortfall, the governing board had not formalized the budget adjustments necessary to do so.

## Overall Rating:

**No**

## 2. Fund Balance

- Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? No
- Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? No
- Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? No

The district has met its 2% reserve level for all reporting periods in 2016-17 except for the projected third interim, where the district expects 1.5%. The district has not met its local requirement of 3% established by the governing board in any of these reporting periods and is not expected to meet this local requirement in the subsequent two fiscal years.

The table below illustrates the anticipated percentage of reserve levels for the unaudited actuals for 2015-16 and at each reporting period for 2016-17. Of concern is that the reserve levels and percentage are dropping in each period along with the unrestricted fund balance.

Fiscal Year	Reporting Period	Required 2% Reserve	Reported Fund Balance Reserves	Unrestricted Fund Balance
2016-17	Adopted Budget	10,405,253	10,405,253	17,688,160
2015-16	Unaudited Actuals	10,362,831	10,362,831	12,063,852
2016-17	First Interim	10,800,878	10,800,878	10,977,897
2016-17	Second Interim	10,990,122	10,990,122	11,278,244
2016-17	Third Interim	10,941,283	8,281,472	8,431,471

Adopted Budget 2016-17: Unrestricted revenue assumptions increased by \$9.1 million from the district's 2015-16 third interim report. The largest increase was in LCFE funding with \$22.4 million in new revenue due to an increase in gap funding and increase of 345 in ADA. (By the 2016-17 first interim, the district recognizes ADA will be 426 lower than estimated in the adopted budget. This will be discussed more in section four below as the district failed to identify an error in the enrollment projections.) Unrestricted expenditures increased by \$8.7 million from the 2015-16 third interim report. Overall, the unrestricted fund balance increased by \$418,000 over third interim.

Total contributions and transfers out to restricted programs is \$67,183,784, and special education represents the largest share, totaling \$51.9 million and reducing the fund balance. Overall encroachment represents 19.4% of unrestricted expenditures and \$16.2% of unrestricted revenues.

Of the \$7.1 million in other commitments, the district expects to spend \$5.9 million on audit findings and adjustments equivalent to 1.2% of the required reserve level.

Unaudited Actuals 2015-16: Although the district meets its required 2% reserve, board policy requires 3%. The amount of reserves dedicated to the increased reserve level has decreased by \$4.3 million from the prior year. District staff indicated that contributions to special education, early childhood and food service programs have eroded reserves.

Special education encroachment grew by \$1.6 million over third interim 2015-16 and \$6.2 million over 2014-15 unaudited actuals and now totals \$51.5 million encroachment from unrestricted funds.

- The early childhood program was supported with \$1.3 million of unrestricted and \$2 million of Title I funds yet overspent by \$1.2 million as the district hired staff for the new United Nations program while the numbers of anticipated students did not materialize.
- Food service programs required contributions of \$2 million approximately \$1.1 million more than budgeted even though the district has experienced a decline in enrollment and number of meals served. Because sites can arrange their own bell schedules, the food service department cannot coordinate delivery and staffing levels to maximize efficiencies. Until the district coordinates standardized bell schedules, food services will continue to need contributions to support the program.

The chief financial officer indicated that the unrestricted structural deficit of \$1.5 million after adjustments for one-time revenues and expenses must be addressed in the 2017-18 budget.

First Interim 2016-17: The district recognizes that ADA is 426 lower than estimated in the adopted budget and decreased unrestricted revenues accordingly. The county office of education stated that while the revenues were adjusted, the district does not appear to have reduced expenditures.

Based on the first interim report, the district is experiencing a structural deficit of \$1.1 million for the unrestricted general fund although adjusting for one-time expenditures, the net structural deficit is approximately \$481,000.

Total contributions to restricted programs is \$65,564,294.

A more thorough discussion of encroachment is in section nine below.

At first interim, the district is barely able to meet its 2% required reserve level with \$27,000 in excess reserves. Overall, the unrestricted fund balance drops by \$6.7 million. Of this amount, \$5.5 million was recorded and recognized in the unaudited actuals to settle prior year audit findings and adjustments as previously noted.

Based on concerns from the county office regarding declining enrollment, an adverse impact on enrollment projections, an increase in special education encroachment and deficit spending, the district's positive certification was changed to a qualified certification.

Second Interim 2016-17: Unrestricted revenues increased by \$1.2 million and expenditures decreased by \$3.6 million. Of significant concern is that special education contributions increased by \$4.9 million from first to second interim.

The district implemented a general fund spending protocol on January 9, 2017 to limit site and department spending districtwide in response to the erosion of the fund balance. According to those interviewed, sites and departments rushed to spend budgets before the actual implementation. Normal savings from staff turnover and unspent budgets based on district trends did not materialize. In fact, purchase-order activity increased by 249%, or \$1,299,228, more purchase orders processed in January 2017 than January 2016.

At second interim, the district is barely able to meet its 2% required reserve level and has \$137,000 excess reserves. Overall the unrestricted fund balance increased by \$300,000.

The district filed a qualified certification at second interim.

Third Interim: By third interim, the district is \$2.8 million short of its required 2% reserve level. The unrestricted fund balance dropped from \$17.7 million at budget adoption to \$8.4 million by the end of the year.

The table below summarizes the district's financial activity from unaudited actuals 2015-16 through third interim 2016-17.

<b>OUSD - UNRESTRICTED ANALYSIS</b>	<b>Unaudited Actuals 2015-16</b>	<b>Adoption Budget 2016-17</b>	<b>First Interim 2016-17</b>	<b>Second Interim 2016-17</b>	<b>Third Interim 2016-17</b>
BEGINNING BALANCE	\$16,133,721	\$17,559,526	\$12,063,851	\$12,063,851	\$12,063,851
AUDIT ADJUSTMENTS	233,568	-	-	392,864	392,864
REVENUES	395,830,186	404,053,233	403,850,246	405,043,619	405,212,350
EXPENDITURES	333,429,050	337,304,882	336,222,287	332,576,140	335,675,742
TRANSFERS IN	2,328,377	564,067	735,130	735,130	847,032
TRANSFERS OUT	3,361,244	1,619,490	3,918,860	3,918,860	4,468,860
CONTRIBUTIONS TO RESTRICTED PROGRAMS	(65,671,705)	(65,564,294)	(65,530,184)	(70,462,421)	(69,940,024)
ENDING BALANCE	\$12,063,851	\$17,688,160	\$10,977,897	\$11,278,044	\$8,431,471
REVOLVING CASH	150,000	150,000	150,000	150,000	150,000
2% RESERVE	10,362,831	10,405,253	10,800,878	10,990,122	11,120,037
AUDIT FINDINGS	-	5,922,314	-	-	-
EARLY RETIREMENT INCENTIVE	604,742	604,742	-	-	-
OTHER COMMITMENTS	46,279	605,852	-	-	-
UNAPPROPRIATED	\$0	\$(0)	\$27,019	\$137,922	\$(2,838,566)

**Overall Rating:**

**No**

### 3. Reserve for Economic Uncertainty

- Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? No
- Does the district have additional reserves in fund 17, special reserve for other than capital projects? No
- If not, does the district's multiyear financial projection include a plan to restore the reserve for economic uncertainty? No

The district has maintained the legally required 2% reserve for economic uncertainty for all reporting periods except third interim 2016-17. However, the governing board has established a higher reserve level of 3% that has not been met in the current or subsequent two fiscal years as demonstrated in the table above.

The district does not have other funds available to provide unrestricted funds to support the general fund.

The district has developed a plan to address the 2017-18 shortfall; however, the governing board has not formalized approximately \$9.3 million in budget adjustments necessary to ensure that the district maintains its required reserve level for 2017-18.

In addition, the district will need to address the shortfalls caused by the structural deficit in the 2018-19 and 2019-20 budgets. The amount of actual adjustments will depend on decisions the governing board has yet to approve. (This will be further discussed in a section 13 below).

**Overall Rating:**

**No**

### 4. Enrollment and Attendance

- Has the district's enrollment been increasing or stable for multiple years? No
- Is the district's enrollment projection updated at least semiannually? Yes
- Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? No
- Does the district analyze enrollment and average daily attendance (ADA) data? Yes
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? Yes
- Has the district implemented any attendance programs to increase ADA? Yes
- Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly? Yes
- Have approved charter schools had little or no impact on the district's student enrollment? No
- Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? No
- Did the district certify its CALPADS Fall 1 submission by the required deadline? Yes



The district's enrollment continues to decline. According to certified DataQuest enrollment information, the district has lost 55 students from 2013-14 to 2016-17 while charters have increased 2,621 as shown in the table below. The first interim report analysis prepared by the county office, states that the district was "short of expectations" on enrollment, which may not be updated in the district's budget.

Fiscal Year	2013-14	2014-15	2015-16	2016-17
District Enrollment	36,869	37,096	37,124	36,814
Charter Enrollment	10,325	10,981	11,974	12,946
Totals	47,194	48,077	49,098	49,760

The district maintains projections on Excel spreadsheets that have not been monitored closely for wide variances and cell formula irregularities that have skewed the projections and caused errors, causing management to overstaff as discussed below.

In previous years, the district released staff and/or made other adjustments after the 20<sup>th</sup> day of school if enrollment was lower than expected. However, in the 2016-17 year, this did not occur even though the Business Department became aware of a large error in the Excel enrollment projections worksheet. This lack of recognition led to gross overstaffing and understatement of revenue. As a result, the district could not meet reserve levels for each reporting period in the 2016-17 fiscal year, and fund balance declined significantly.

The district tracks and analyzes enrollment and ADA data between P1 and P2. This information is used to establish future trends for projection purposes. As previously mentioned, the Excel spreadsheet error once realized did not cause management to reduce staffing accordingly.

Information about enrollment and attendance is maintained at the site level and reconciled monthly. The district has implemented attendance incentive programs to increase ADA and provide students maximize learning opportunities. It also hosts regular site trainings on Aeries, the student enrollment/attendance software, and prepares handbooks for sites/departments. The district has developed a handbook for school sites on strategies to improve and increase student attendance.

Charter enrollment has a significant effect on the district's enrollment and has increased by 1,965 during the last three fiscal years. The district denied several charter school petitions that were subsequently approved by the county office where charter students reside within district boundaries. This has had an impact on district enrollment.

The district has a board policy that attempts to reduce the effect of student transfers from the district, yet the district continues to experience declining enrollment.

The district certified its CALPADS Fall 1 submission timely.

Enrollment projections should be based on historical trends, new housing starts, knowledge of pertinent local factors such as changes in industry, emerging charter schools, birthrates and more. The best practice is to project conservatively and adjust staffing as necessary once enrollment materializes beyond projections. District administration should balance the need to maintain predetermined class sizes with appropriate staffing levels to avoid overspending.

**Overall Rating:**

**Mixed**

## 5. Debt

- Does the district have a recent actuarial study and a plan to set funds aside for unfunded liabilities? Yes
- Does the district maintain low levels of non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others)? Yes
- Is the district conforming to GASB 68 requirements by recognizing and reporting its proportionate share of net liability for pension programs? Yes

The following table from the district's Audit Report as of June 30, 2016 shows \$1,402,317,412 in total debt:

Debt Type	June 30, 2016 Balance
General Obligation Bonds (Multiple Issuances)	\$932,545,000
General Obligation Bond Premiums	42,198,166
Emergency Apportionment Loan	44,433,868
Compensated Absences, net of claims liability	11,533,784
Claims Liability	42,046,657
Aggregate net pension liability-STRS & PERS	329,559,937
<b>Total Long-Term Debt Obligations</b>	<b>\$1,402,317,412</b>

Payments for general obligation bonds are made from the bond interest and redemption fund generated from collections of local property tax revenues. Payments for the emergency apportionment loan are the obligation of the unrestricted general fund. The fund that pays the employee compensation would pay the accrued vacation and net pension liabilities. The self-insurance fund pays claims liability.

Senate Bill 39, Chapter 14, Statutes of 2003, was enacted on January 3, 2003 to provide an emergency apportionment loan of \$100 million to the district. The district budgets annual payments of \$5,985,437 from its general fund and expects full repayment in 2026.

The district complies with GASB 68 recognition of net liability for pension programs as demonstrated in the 2015-16 Annual Financial Independent Audit which reflected the following for the district's proportionate share of the net liability for pension programs in 2016:

CalSTRS:	\$233,433,103
CalPERS:	96,126,834
<u>Total Net Pension Liability</u>	<u>\$329,559,937</u>

**Overall Rating:**

**Yes**

## 6. Cash Monitoring

- Can the district manage its cash in all funds without interfund borrowing? No
- If interfund borrowing is occurring, does the district repay the funds within the statutory period in accordance with Education Code Section 42603? Yes
- Does the district forecast its cash receipts and disbursements and verify them at least monthly to ensure that cash flow needs are known with plenty of notice? Yes
- Does the district have a plan to address short-term cash flow needs? No
- Are cash balances reconciled to bank statements monthly? Yes

The district reconciles cash monthly and regularly projects cash flow needs. Interfund repayments are completed within the statutory guidelines.

As previously mentioned on January 3, 2003, Senate Bill 39, Chapter 14, Statutes of 2003 was enacted which provided the district with an emergency loan of \$100 million to offset the cost of audit findings, technology enhancements and the associated loan payment of the draw-down.

In addition to these loan proceeds, the state budget has included significant levels of funding in the last four fiscal years. For the last two fiscal years, the state has eliminated apportionment deferrals. It is concerning that the district is experiencing cash flow shortages requiring temporary borrowing.

District records from 2010-11 to 2016-17 shows that it has borrowed cash from the county treasurer to meet cash flow needs for general fund operations. On August 24, 2016, the governing board approved a resolution for temporary borrowing not to exceed \$30 million in accordance with Education Code Section 42620 and California Constitution Article XVI, Section 6. FCMAT identified this cash loan totaling \$26 million occurring in November 2016 and repayment scheduled in May 2017.

Projections show that the district experiences cash flow needs until property tax receipts are received in December and April. This is an indication that cash reserves are limited and those responsible for cash management are unable to forecast cash needs due to many circumstances beyond their control especially when budgets are routinely overspent and district administration authorizes positions not reflected in the board approved budget. FCMAT cites several conditions that have an impact on both the budget and ultimately available cash reserves including but not limited to the following:

- Constant turnover in the positions of superintendent and chief financial officer (CFO).
- Staff turnover in key business and administrative levels.
- Overstaffing at school sites.
- Abundance of small schools and failure of the governing board to address this issue.
- Complete site autonomy and lack of district structure and/or guidelines for consistency between school sites.
- Separation of the budget and finance departments.
- An abundance of budget exceptions granted to sites and departments that overspend.

**Overall Rating:**

**Mixed**

## 7. Bargaining Agreements

- Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? No
- Did the district conduct a presettlement analysis, including multiyear projections, identifying ongoing revenue sources or expenditure reductions to support the agreement, as well as the long-term effects on the district? Yes
- Did the district correctly identify the related costs above the COLA, (e.g. statutory benefits, step and column)? Yes
- Did the district address budget reductions necessary to sustain the total compensation increase, including a board-adopted plan? No
- Did the superintendent and CBO certify the agreement prior to ratification? Yes
- Is the governing board's action consistent with the superintendent's/CBO's certification? Yes
- Did the district meet the public disclosure requirements, including disclosure of the costs associated with a tentative collective bargaining agreement, before it became binding on the district? Yes

The table below shows statutory cost of living from 2012-13 through 2017-18, and another reflects a summary for each bargaining unit of on-going salary increases.

The district has bargained more than a cost-of-living increases in each of the last three years. For example, the Oakland Education Association received 5.596% for fiscal year 2014-15, 5.53% for 2015-16 and 3.40% for 2016-17, totaling 14.526% while cost-of-living increases total 1.87% during this same period of time. Bargaining beyond statutory cost-of-living increase must be supported by the available fund balance.

According to the district, the three-year contract for teachers ended on June 30, 2017. Compensation for all bargaining units is based on a revenue sharing model where 65% of local control funding model (LCFF) dollars is identified for compensation. Total LCFF is comprised of base funding, grade level adjustments, supplemental and concentration grant funding. The district must identify a nexus to supplemental and concentration grant funding to include these amounts in total compensation. FCMAT was not provided with documentation to support how the district created this nexus for negotiation purposes.

FCMAT was provided documentation to support ongoing negotiations with bargaining units and sunshining of initial proposals.

In accordance with AB 1200, the district has prepared the Public Disclosure of Collective Bargaining Agreements for ratification by the governing board that demonstrate the multiyear impacts of cost-of-living increases, increases in pension benefits, the number of full-time equivalent positions and narrative explanations signed by the superintendent and chief business official.

It is imperative that the governing board review the concerns identified in this report regarding deficit spending, fund balance, encroachment, position control and multiyear financial projections before the ratification of new contract proposals to ensure an adequate fund balance and restoration of the reserve levels.

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Statutory COLA	3.24%	1.57%	0.85%	1.02%	0.0%	1.56%

Employee Group	Bargaining Unit	Current FTE Count	Contract Expiration Date	Ongoing Wage Increases FY 2013-14 through FY 2015-16
Certificated	Oakland Education Association	2619	June 30, 2017	5.596% As of 6/30/2014
				2.74% Effective 7/01/2015
				2.79% Effective 1/01/2016
Classified	Service Employees Int'l Union	893	June 30, 2018	3.07% Effective 7/1/2016
				0.33% Effective 1/1/2017
				5.596% As of 6/30/2015
Classified	American Federation of State, County and Municipal Employees	620	June 30, 2017	3.09% Effective 5/01/2016
				3.40% Effective 3/1/2017
				6.846% As of 6/30/2015
Classified	California School Employees Association	10	June 30, 2016	2.74% Effective 7/01/2015
				1.25% Effective 1/01/2016
				3.07% Effective 7/1/2016
Classified	Building and Construction Trades Council	85	June 30, 2017	0.33% Effective 1/1/2017
				9.75% Effective 2/01/2016**
				3.07% Effective 1/1/2017
Classified	Teamsters	13	June 30, 2018	8.7% Effective 1/01/2016**
				5.596% As of 6/30/2015
				2.74% Effective 7/01/2015
Supervisory	United Administrators of Schools	408	June 30, 2017	0.29% Effective 1/01/2016
				3.07% Effective 7/1/2016
				0.33% Effective 1/1/2017

\*\* These employee groups received no wage increases during fiscal years 2013-14 and 2014-15.

## Overall Rating:

**No**

## 8. General Fund

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? Yes
- Does the district ensure that only ongoing restricted dollars pay for permanent staff? No
- Does the budget include reductions in expenditures proportionate to one-time revenue that will terminate in the current or two subsequent fiscal years? No
- Does the district ensure that the parcel tax does not pay for ongoing expenditures? No
- Does the district ensure that litigation and/or settlements are minimized? Yes

The district's general fund unrestricted budget allocated to salaries and benefits is at or under the statewide average.

It is important to identify and track one-time revenues with one-time expenses. Ideally, temporary funding, including one-time funds, should be spent on one-time expenditures. If staffing is provided, employees should be notified of their temporary employment period.

The district has three approved parcel taxes: Measure G is ongoing; however, Measure N expires in 2024 and Measure G1 expires in 2028. Staffing associated with temporary parcel taxes should be tracked and staff notified of layoff dates when taxes expire. Management and the governing board should have sufficient time to react and adjust for substantial layoffs when the parcel taxes expire.

These parcel taxes pay for ongoing salary and benefits as well as other expenses approved in each Measure. Because of increased salaries and benefits, current parcel tax levels may not be sufficient to pay for any other expenditures beyond salaries and associated benefits following the 2018-19 fiscal year. Expenses for books, supplies, and other operating expenses cannot be sustained unless there is a reduction in staff.

The district spent approximately \$33 million from restricted local donations, including parcel taxes, most of which were one-time revenues. Most of these expenditures were used to pay for salaries and benefits. Personnel funded from one-time restricted funds should be laid off each year pending receipt of new funds. The best practice is to budget the receipt of donated funds upon actual receipt of the funds to avoid overappropriation of budgets until funding has materialized.

FCMAT did not see material changes in litigation and/or settlement costs.

## Overall Rating:

**Mixed**

## 9. Encroachment

- Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) Yes
- Does the district have a reasonable plan to address increased encroachment trends? No
- Does the district manage encroachment in all funds including the cafeteria fund? No

Encroachment represents the amount of contributions to restricted programs that are not self-supporting. Traditionally, special education, transportation and restricted routine maintenance are programs that fall short of federal and state funding to be self-supporting.

The majority of encroachment is from special education programs and the restricted routine maintenance account (RRMA.) A full explanation of RRMA funding requirements is provided in section 19 below. Essentially, legislation has provided a phase-in to full funding of the RRMA program by 2020-21.

Encroachment from special education programs represents 20.8% of the unrestricted expenditures and continues to grow more than any single sector of the district's budget.

Records indicate that in 2013-14, the total general fund encroachment was \$48,240,894, of which \$41,200,568 was to support special education programs. At third interim in 2016-17, the total general fund encroachment is estimated to be

\$69,940,024, of which \$56,292,846 is special education programs. The table below shows year-over-year increases to support special education programs.

Fiscal Year	Special Education Contribution
2013-14	\$41,200,568
2014-15	\$45,349,775
2015-16	\$51,534,414
2016-17	\$56,292,846

FCMAT compared student ADA and expenditure data from 2015-16 with statewide average for unified school districts. The following shows the comparison between statewide averages for district contributions and expenditures per ADA for Oakland USD.

The following has expenditures only for special education based on the maintenance-of-effort report:

***Special Education Cost Per Student***

***Fiscal Year 2015-16***

	District Data	District Amount Per ADA	Statewide Average Per ADA	Difference
Total District ADA	35,484.27			
District Encroachment	\$51,534,414	\$1,452	\$1,226	\$226
Special Education Expenditures	\$83,406,326	\$2,351	\$2,041	\$310

Based on this information, the district exceeds the statewide average for both amounts per ADA for expenditures and contributions. The district should consider an in-depth review of the special education program for cost containment opportunities that still maintain high-quality programs to reduce the escalation of costs.

The cafeteria and child development funds also require contributions. Although district administrators have identified ways to reduce encroachment in both programs, implementation will require that the governing board adhere to standardized bells schedules or allow senior administrators to institutionalize schedule changes that have minimal impact on educational programs.

School site principals have discretion to create and adjust bell schedules that affect the timing of these auxiliary programs to operate at optimum levels of efficiency. Until the governing board takes action to standardize bell schedules, these programs will require unrestricted general fund contributions.

Encroachment from the early child development fund was \$452,212 in 2013-14, but is projected to be \$1,943,860 at third interim in 2016-17. The cafeteria fund caused no encroachment in 2013-14, but encroachment is projected to be \$2,525,000 at third interim for 2016-17.

**Overall Rating:**

**No**



## 10. Management Information Systems

- Is the district's financial data accurate and timely? Yes
- Are the mandated county and state reports filed in a timely manner? Yes
- Are key fiscal reports — including those on personnel, payroll and budget - accessible, timely, and understandable? Yes
- Is the district on the same financial system as the county? No
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? No
- Is the district able to accurately identify students who are eligible for free and reduced-price meals, English learners, and foster youth, in accordance with Local Control Funding Formula (LCFF) and Local Control Accountability Plan (LCAP) requirements? No
- Is the district able to collect, assess, and report student data in the California Longitudinal Pupil Achievement Data System (CALPADS)? Yes

District financial data is accurately reflected in the financial system based on information compiled by district staff for the FCMAT review. Mandated county and state reports are filed timely. The district can generate fiscal reports and budget development modeling through a web-based program that extracts information contained in the integrated financial accounting system that housed position control information. While the system is not ideal, it produces reliable information for end users.

The entire financial system is composed of several operating systems with programmed interfaces for overall integration of information. The county office uses the Escape financial and human resource system. With technical and financial assistance from Alameda County Office of Education, the district will transition to Escape Technologies, a fully integrated system, on July 1, 2018.

The district's technology plan for July 1, 2014 through June 20, 2018 identifies extensive goals for curriculum, professional development and infrastructure, hardware, technical support and software. Also included is a replacement policy for obsolete equipment, monitoring and evaluation of technology on teaching and learning. The district uses effective research-based methods and strategies to implement a support system for students, teachers and the community that provides access and resources for the best learning environment.

The district has identified the following priorities:

- Student learning
- Productivity
- Data and assessment
- Safety, ethics, and security
- Support teachers and staff
- Infrastructure
- Equity and access



- District technology staff has identified an extensive listing for each school and district office site for network infrastructure and equipment replacements for possible E-Rate funding. A summary of E-Rate requests for funding and commitments from 1998 through 2016 show that the district has received more than \$65.8 million, or 38% of total requested amount, in E-Rate assistance.

The district provided documentation of California Longitudinal Pupil Achievement Data System (CALPADS) reports that identify students who are eligible for free and reduced-price meals, English learners, and foster youth in accordance with LCFE and Local Control Accountability Plan (LCAP) requirements. These reports are processed through CALPADS and meet all the state reporting requirements.

Audit finding 2016-008 – Unduplicated Local Control Funding Formula Pupil Counts – is a repeat from the previous audit year. The unduplicated pupil count was reduced by 15 students designated as English learners that required the district update the CALPADS data entry screen to make the correcting adjustment. According to the district’s official response, it continues to make considerable improvements to the student intake process when students transfer in from other districts. Additional training has been provided to staff responsible for CALPADS submissions and a team of enrollment and attendance personnel is monitoring to ensure accurate reporting.

**Overall Rating:**

**Yes**

## 11. Position Control and Human Resources

- Does the district maintain and use an effective and reliable position control system that tracks personnel allocations and expenditures? No
- Is position control integrated with payroll and the financial system? No
- Does the district control unauthorized hiring? No
- Is the district able to control overstaffing? No
- Are the appropriate levels of internal controls (i.e., checks and balances) in place between the business and personnel departments to prevent fraudulent activity? No
- Is position control reconciled against the budget during the fiscal year? No
- Does the district offer or ensure that staff attend professional development regarding financial management and budget? Yes

A reliable position control is a planning tool that incorporates defined standards for tracking, adding, creating and deleting positions within the organization. A properly functioning position control system has internal control checks and balances between personnel decision-making and budget appropriations that align staffing with budget and payroll systems.

Beginning in April of each fiscal year, the district initiates the Fiscal Year Position Control Set-up, Employee Roll & Syncing process. This multi-step process uses a web-based budget development tool in conjunction with the Integrated Financial Account System (IFAS) that has unique position control numbers to generate site budgets for labor and non-labor expenditures.

Although the district uses a position control system, the district's budgeting tool allows sites to budget for staffing using "average" salaries, which may not cover the actual cost of staffing. When site budgets are built on average salaries and actual placement costs are higher, the district backfills the deficiency from unrestricted reserves.

Position control does not integrate with the payroll system. Instead, the district uses the budget development tool to track total full time equivalent positions then overlays position control which can create duplicates. IFAS unique position control number for each employee are uploaded to the budget development tool allowing sites to model their allocations. Once sites complete the process, site budgets are uploaded into IFAS. The budget development tool should be reconciled with IFAS position control to prevent duplicate positions in the budget prior to uploading back into the IFAS system. Ideally, each board-authorized position should have a unique position control number instead of each employee. The district is encouraged to review the overlay process and unique numbering system.

The human resources office utilizes a separate standalone system, Applicant Tracking, that is not integrated with the IFAS; however, the district will transition to a new system July 2018, Escape Technologies, at which time human resources will abandon the existing system.

The district uses a fillable position requisition form for sites and departments requesting position elimination, creation and/or funding changes. The form has complete instructions for workflow approvals.

Following the resignation of the chief financial officer, the Payroll Department was placed under the control of human resources. FCMAT made inquiries about the integrity of internal controls between business and human resources and was told that the independent auditor has approved and that no violations of internal controls exist. The Payroll Department has been moved back under the supervision of the chief financial officer since the time of FCMAT's fieldwork.

Human resources stated that the budget is reconciled with position control, human resources and payroll records and that human resources ensures new positions are funded in IFAS; however, numerous staff reported that the former superintendent rushed new unfunded positions through the process without regard to budget appropriation.

FCMAT reviewed board minutes and notes several positions authorized on June 29, 2016 and subsequently board-approved without budget appropriation. FCMAT requested and received information to substantiate that these positions approved on that date were not in the budget adoption. The district should ensure that new positions are board-approved and budget appropriation is available to support these positions prior to employee start dates and contract approvals.

**Overall Rating:**

**No**

## 12. Budget Development and Adoption

- Is a budget calendar used that contains statutory due dates and the major budget development milestones? Yes
- Are clear processes and policies in place to analyze resources and allocations to ensure they align with strategic planning objectives and that the budget reflects the LEA's priorities and LCAP? Yes
- Is the LCFF correctly calculated and understood? Yes
- Are projections for ADA, enrollment, revenue and unduplicated pupil count accurate and reasonable? Yes
- Is the district decreasing deficit spending and maintaining adequate reserves and fund balance when compared with the prior year? No
- Has the district ensured that the LCAP is incorporated in the budget? Yes
- Is the budget developed using a zero-based method rather than being a rollover budget? No
- Does the district use position control data for budget development? Yes
- Does the budget development process include input from staff, administrators, board and community, as well as the budget advisory committee (if there is one)? Yes
- Are the LCAP and the budget adopted within statutory timelines established by Education Code Section 42103, and are the documents filed with the county superintendent of schools no later than five days after adoption, or by July 1, whichever occurs first? Yes

FCMAT reviewed the 2017-18 budget development calendar. The district's budget calendar is developed utilizing statutory timelines, identifies task and the responsible department.

Instead of zero-based budgeting, the district uses a virtual budget development tool for budget development. Training documents show that staffing levels from the current year are rolled into the next fiscal year. Managers and site principals determine staffing levels by adding or deleting full-time equivalent positions using averages based on the position control data, and any remaining balance can be spent on nonlabor categories.

Budget development begins in August of the preceding year and involved multiple central support departments as well as school sites. The district has developed a budget handbook that includes detailed instructions for major budget activities. Also incorporated in the budget development process are the steps necessary to fulfill the district's LCAP requirements for parent, community and employee engagement; LCAP progress; school site council budget reviews; meeting with bargaining units to discuss budget additions/deletions; federal grants; board study sessions and adoption dates for the LCAP and district budget.

The district developed and uses a 2017-18 budget development checklist with its sites as well as a comprehensive budget development guide. The guide describes the overall budget development process, how to engage in the process and a step-by-

step planning and preparation guide. Included is a narrative about major funding sources that clarifies how to utilize the resources for staffing purposes in an effort to comply with LCAP requirements, board of education actions, and the schools' priorities. Analysts from the Business Services Department try to visit school sites monthly to provide budgetary support and prepare journal entry forms.

## Overall Rating:

**Yes**

### 13. Multiyear Projections

- Has the district developed multiyear projections that have reasonable assumptions? Yes
- Are projected fund balance reserves disclosed and based on the most reasonable and accurate information available? Yes
- At a minimum, are the multiyear projections compiled at budget adoption and at the time of interim reports? Yes
- For the purpose of calculating multiyear projections, is the district using the latest LCFF gap closure percentages that show the amount of funding necessary to maintain purchasing power for the LCFF statewide? Yes
- Is the LCFF target for each year recalculated based on the grade span ADA, and then compared to the adjusted prior year funding, so that the funding gap would then be reduced by the funding gap percentage for the given year? Yes

The district prepares multiyear financial projections (MYFPs) at each major reporting period in conjunction with each major reporting period. The MYFPs are presented at the same time as the budget reports using the latest LCFF assumptions for cost-of-living adjustment and gap closure. The LCFF target is automatically recalculated based on the district's declining enrollment, ADA, unduplicated counts together with cost-of-living adjustment and gap closure.

The district prepared the third interim report for 2016-17 demonstrating an inability to meet its required 2% reserve level. Included in the third interim report is the multiyear financial projection and district assumptions. Although assumptions for enrollment, ADA and step-and-column increases are reasonable, at the time of FCMAT's fieldwork the MYFP shows that \$23.07 million in budget adjustments is still needed to balance the unrestricted general fund in 2017-18.

The multiyear projection for 2017-18 unrestricted funds showed a modest reduction in revenues with a significant reduction in expenditures as shown in the table below. The district does not provide a narrative to explain how it plans to reduce unrestricted expenditures by \$13.8 million in 2017-18 and restore these expenditures by \$10 million in 2018-19. Without detailed information to support these reductions and subsequent increases, these projections are unreasonable.

<b>OUSD - UNRESTRICTED MYFP ANALYSIS AT THIRD INTERIM 2016-17</b>	<b>Third Interim 2016-17</b>	<b>FISCAL YEAR 2017-18</b>	<b>FISCAL YEAR 2018-19</b>
REVENUES	\$405,212,350	\$403,019,811	\$417,158,916
EXPENDITURES	\$335,675,742	\$321,876,847	\$331,850,428
SURPLUS (DEFICIT)	\$69,536,608	\$81,142,964	\$85,308,488
TRANSFERS IN	\$847,032	\$675,969	\$675,969
TRANSFERS OUT	\$4,468,860	\$4,569,856	\$4,683,645
CONTRIBUTIONS TO RESTRICTED PROGRAMS	\$(69,940,024)	\$(72,609,573)	\$(75,394,550)
INCREASE/DECREASE TO FUND BALANCE (NEGATIVE IS A STRUCTURAL DEFICIT)	\$(4,025,244)	\$4,639,504	\$5,906,262
UNRESTRICTED FUND BALANCE	\$8,431,472	\$13,070,975	\$18,977,238
RESERVE FOR ECONOMIC UNCERTAINTIES 2%	\$11,120,037	\$10,793,508	\$11,033,399
OTHER ASSIGNMENTS	-		
SURPLUS (SHORTFALL)	\$(2,688,565)	\$2,277,467	\$7,943,839

As mentioned in section two above, the district's unrestricted ending fund balance has decreased by \$9.3 million in the 2016-17 fiscal year. The largest adjustment was the result of overprojecting ADA for the adopted budget, which was adjusted at first interim; however, offsetting budget adjustments to expenditures were not incorporated until second interim.

Anticipated savings from a general fund spending protocol only caused the situation to worsen as sites and departments encumbered available budget balances in anticipation of the spending freeze.

From adoption to third interim, contributions to restricted programs increased by \$4.375 million, exacerbating the district's financial condition and eroding the unrestricted fund balance to less than the required 2% reserve level.

**Overall Rating:**

**Yes**

#### 14. Budget Monitoring and Updates

- Are budget assumptions updated throughout the year as updated information becomes available? Yes
- Are actual revenue and expenses in line with the most current budget? No
- Are budget revisions completed in a timely manner? No
- Does the district openly discuss the impact of budget revisions at the board level? Yes
- Does the district abide by Education Code 42127(h) by informing the board of education and the public, within 45 days of enactment of the state budget, of any changes in the state budget that would affect the adopted budget? Yes
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? Yes
- Has the district's long-term debt decreased from the prior fiscal year? No

- Are contributions to restricted programs controlled and monitored? No
- Has the district identified the repayment sources for long-term debt or non-voter-approved debt (e.g. certificates of participation, capital leases)? Yes
- Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders? Yes
- Does the district encumber salaries and benefits? Yes
- Are the balance sheet accounts in the general ledger reconciled regularly? No
- Does the district complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130 and following, in a format or on forms prescribed by the Superintendent of Public Instruction (SPI), and ensure that they are based on standards and criteria for fiscal stability? Yes

The district updates budget assumptions regularly in accordance with the latest information available from the governor's budget updates and legislative analysis office. While these types of assumptions primarily influence budgeted revenues and costs associated with employee pension obligations, budgeted expenditures are not properly aligned with actual financial activity in a timely manner.

Managing a multimillion dollar budget requires sufficient personnel devoted to managing and developing the budget; communication channels from the budget office to other district divisions; departments and school sites; and adherence to a sound operating structure. Defined roles, responsibilities and commitment to board policy that govern the process for budget development and monitoring is essential to ensuring that the working budget accurately reflects current financial activity and accurately projects the impact on available fund balance and required reserve levels.

The following shows a breakdown in each element listed above.

- Absent a definitive structure to approve exceptions for overspending site or department budgets, several personnel are authorized to make decisions that have a budgetary impact prior to governing board approval.
- Reductions by the governing board targeted at the district office caused severe shortages in staffing levels especially in the Budget and Finance departments. This has given the department insufficient time to analyze and monitor the budget, plan and incorporate multiyear financial projections or provide sufficient training to staff.
- The overwhelming volume of work with limited staff has forced employees to react to budget issues instead of taking a proactive approach to monitoring budgets to actual expenditures.
- Although the district has the option of restricting spending through a "hard coded stop" at the requisition level if there is insufficient budget authority, accounts are often overridden without consequences to those who knowingly overspend their budgets. Exceptions are consistently occurring at the administrative level, which has contributed greatly to district overspending.

- Information does not always filter to the appropriate budget/finance personnel in a timely manner to ensure the budget can be updated and maintained appropriately.
- The inability to properly analyze budgets has caused the district to be out of compliance with spending protocols in federal and state programs based on audit findings.
- The district encumbers salary and benefits in the payroll system from the position control system; however, the position control system does not interface with the budget system. The district should ensure that budget and payroll are interfaced with position control and that periodic internal audits are conducted, discrepancies adjusted and management reviews the findings.

The district should provide more training for all personnel and board members to enhance their school finance knowledge. This will make the presentations more understandable and help the board ask questions that will enhance their understanding of the budget and multiyear financial projections.

Special education costs continue to rise significantly. Possible reasons include the high turnover in administrative staffing; the inability to control costs; and the inability to implement planned reductions such as eliminating contract nursing. As previously mentioned in section nine above, the board should consider an in-depth review of the special education program to assess cost containment and continue to maintain a free appropriate public education for disabled children.

The district should address issues identified throughout this report that have a major impact on its budget.

**Overall Rating:**

**No**

**15. Retiree Health Benefits**

- Has the district completed an actuarial valuation to determine the unfunded stability under GASB 45 requirements? N/A
- Does the district have a plan for addressing the retiree benefits liabilities? N/A
- Has the district conducted a re-enrollment process to identify eligible retirees? N/A

The district does not have retiree benefits; therefore, there is no requirement for GASB 45.

**Overall Rating:**

**N/A**



## 16. Leadership/Stability

- Does the district have a superintendent and/or chief business official who has been with the district more than two years? No
- Does the governing board adopt and revise understandable and timely policies and support the administration to ensure implementation? No
- Does the superintendent adopt and revise understandable and timely administrative regulations and ensure that adopted board policies and approved administrative regulations are communicated to staff and followed? No
- Does the governing board refrain from micromanaging district administration and staff? No

An important component of district stability is a culture and practices that promote and support systematic reform, innovative leadership and high expectations to improve student learning. The district has had five superintendents in the last nine years.

This fiscal year, the comptroller and chief financial officer positions were vacated, and the district has elected not to fill these critical positions until a later date. The duties and responsibilities of these high-level business positions were reassigned to other accounting and business personnel.

Each new superintendent has implemented changes to educational programs and budget management, particularly with staffing and expenditure exceptions. Employees interviewed perceive that changes have been based on these past administrators' personal interests, which at times have clashed with some board members and other administrators, creating an atmosphere that has been harmful to the district's growth and stability.

When senior administrative positions are constantly changing because of turnover in key management positions, employees assigned to budget management are in an environment of constant flux making it difficult, if not impossible, to present a reliable financial position for the district.

Based on the information in this report, the district has lost control of its spending, allowing school sites and departments to ignore and override board policies by spending beyond their budgets. In many cases, board policies are knowingly ignored and/or circumvented without consequences. During the former superintendent's tenure, this behavior has permeated to the site administration, causing a lack of consistency in appropriate site size, staffing, class offerings and budgets. The principals' accountability to district administration has eroded to the point that they criticize district administrators in open board sessions.

CSBA board standards states the following:

The primary responsibilities of the board are to set a direction for the district, provide a structure by establishing policies, ensure accountability and provide community leadership on behalf of the district and public education.



While the board has updated many board policies, school sites and some district level departments reportedly fail to follow them, and senior administrators do not believe the board supports them in enforcing these policies and/or regulations.

The school board should follow CSBA standards that recommend boards function as one body with a common message. The following CSBA standard has not been consistently followed:

School districts and county offices of education are governed by boards, not by individual trustees. While understanding their separate roles, the board and superintendent work together as a “governance team.” This team assumes collective responsibility for building unity and creating a positive organizational culture in order to govern effectively.

Requests for information should come from the board as a governing body not from individual board members without the knowledge of other board members. Issues of clarification should follow a prescribed process in open session, or questions should be developed before board meetings and given to the superintendent for distribution to the appropriate staff member.

**Overall Rating:**

**No**

## 17. Charter Schools

- Has the district identified a specific employee to be responsible for ensuring that adequate oversight occurs for all approved charter schools? Yes
- Has the charter school submitted the mandated financial reports on time? Yes
- Has the charter school commissioned an independent audit? Yes
- Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? Yes
- Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? Yes

The district has a separate charter division and identified employees that correspond directly with each of the 37 active (two closed in 2016-17) charter schools. Checklists for timely submission of information are logged for each charter school. When necessary, letters or notice of concern/violation identifying specific concerns are sent to the charter school administration. A “Summary Checklist” is a document created by the charter school division staff to measure each charter school’s financial condition. Special notes pointing out unusual variances, such as mergers or grade level additions, accompany the financial analysis for the charter school.

The district calculates several financial ratios for each charter that cover multiple fiscal years to monitor the fiscal condition and provide a trend analysis at a glance. It tracks reporting timelines and requirements for each charter school to ensure timely submission of budget and interim report filings.

The charter school division has an organization system of data collection and analysis. Charter schools are encouraged to communicate with various trained staff members for assistance and guidance.

Each charter school is required to have an annual independent audit. The charter school division reviews the findings and recommendations and follows up on corrective action(s) when appropriate.

In some instances, the audit reports have findings that will not affect the fiscal certification yet charter division staff provide assistance to the charter schools to enhance protocols, policies and procedures to avoid future audit findings.

The charter school division updates the governing board timely on the status of all charter schools the board authorized.

**Overall Rating:** **Yes**

### 18. Internal Controls and Annual Independent Audit Report

- Does the district implement appropriate measures to discourage and detect fraud? No
- Did the district receive an independent audit report without material findings? No
- Can the audit findings be addressed without affecting the district's fiscal health? Yes
- Has the independent audit report been completed and presented within the statutory timeline? Yes
- Are audit findings and recommendations reviewed with the board? Yes
- Did the audit report meet both GAAP and GASB standards? No

Internal controls are designed to adequately prevent, discourage and detect fraud and safeguard district assets. Effective internal controls provide reasonable assurance that operations are efficient and effective. Properly functioning internal controls are intended to discourage and detect fraud in a timely manner allowing management to respond. Operational internal controls provide a framework and structure for an organization's employees to function within clearly identified areas of authority and responsibility for appropriate approvals.

The district employees interviewed indicated the organization practices ethical behavior; however, several employees cite numerous staff reductions and turnovers at the central office level, creating a stressful work environment with overworked employees. Of concern is turnover and vacancies in key management positions, most notably the comptroller and chief financial officer vacancies approximately six months at the time of FCMAT's fieldwork. The duties and responsibilities have been reassigned to other staff members, which may not provide sufficient separation of duties.

Many employees report a lack of consistency and continuity with district policy and procedures. Examples include: lack of supporting documentation for accounts payable, spending beyond site/department budgets and lack of supporting documentation for payment of vendor invoices. School sites and departments are reportedly not held accountable for exceeding their budgets, and personnel additions are authorized without sufficient budget to support these positions.

The most recent audit report for the year ending June 30, 2016 identifies internal control findings consistent with FCMAT’s findings and was filed timely. In addition, the findings were distributed to the appropriate district staff member for resolution and provided to the governing board. Except for one audit finding in ASB finding 2016-001, the district complied with GASB and GAAP requirements for financial reporting.

The auditor issued a qualified opinion on the district’s financial statements and a material weakness in the internal controls; a qualified opinion and significant deficiency with respect to certain federal programs; and qualified opinion on state compliance. A detailed listing of these findings is provided in the tables below. None of the findings have a material impact on the district’s fiscal health.

The table below is the independent auditor’s schedule of findings and questioned costs that form the basis of their qualified opinion on federal programs where the auditor “identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.”

Finding	Program Name	Compliance Requirement
2016-004	Title I; Title II; 21st Century; Special Education; National School Lunch Program; Child and Adult Care Food Program; and Child Care.	Procurement, suspension and debarment.
2016-005	Title I	Special tests and provisions.

The following is the independent auditor’s schedule that forms the basis of the auditor’s qualified opinion on state compliance:

2016-006 – State Programs	After School Education and Safety
2016-007 – State Programs	School Accountability Report Card
2016-008 – State Programs	Local Control Funding Formula Pupil Count
2016-009 – State Programs	Educator Effectiveness

The following is the independent auditor’s schedule of findings and questioned costs related to internal controls:

2016-001 – ASB Not resolved from prior year audit.	Financial Statement Presentation of Fiduciary Funds, ASB	The District has not prepared a summary of the Associated Student Body (ASB) funds in an auditable format.
2016-002 – Fiduciary Fund 76 Not resolved from prior year audit.	Financial Statement Presentation of Fiduciary Funds, Fund 76 Reconciliation Code	Monthly reconciliation process for the fiscal year ended June 30, 2016 was not being satisfactorily completed.
2016-003 – Human Resources/ Payroll Not resolved from prior year audit.	Human Resources/Payroll Internal Control Findings Code	The district has established internal controls designed to ensure completeness and accuracy regarding the reporting of employee information to the medical and pension benefit providers but is not always maintaining such documentation in auditable form.

The district has made significant progress during the last two fiscal years resolving past audit findings and ensuring timely reporting.

**Overall Rating:** **Yes**

## 19. Facilities

- Has the district passed a general obligation bond? Yes
- Has the district met the audit and reporting requirements of Proposition 39? No
- Is the district participating in the state's School Facilities Program? Yes
- Does the district have sufficient personnel to properly track and account for facility-related projects? Yes
- Has the district met the reporting requirements of the Williams Act? Yes
- Is the district properly accounting for the Routine Repair and Maintenance Account requirement at the time of budget adoption? Yes
- Does the district prioritize facility issues when adopting a budget? Yes
- If needed, does the district have surplus property that may be sold or used for lease revenues? Yes
- If needed, are there other potential statutory options? Yes
  - Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?
  - Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.
- Does the district have a long-range facilities master plan that was completed or updated in the last two years? No

The district has passed two school facilities improvement bond measures. Measure B, passed in June 2006, for \$435 million and most recently Measure J, passed June 2012, for \$475 million. Bond expenditures are restricted to projects described in the official bond measures project list as approved by the governing board.

The Independent Citizens Oversight Committee, as required by Education Code Section 15278, is an advisory committee made up of at least seven members (Oakland Unified has nine members) comprised of local citizens. The purpose is to inform the public about bond expenditures; review and report on the proper expenditure of taxpayers' money for school construction projects; advise the public whether the school district complies with state requirements; ensure that no funds are used for teacher or administrative salaries including any school operating expenses; receive and review the annual independent audit report; inspect and visit project sites, and review district plans for cost saving measures.

An important component of the committee's work is posting annual reports to the district's website for public review. Annual reports posted on the district's website

go through June 5, 2015. Although not published on the district's website, FCMAT was provided with the August 2016 annual report, committee minutes, as well as appointments and reports which can also be located on the district's webpage at <https://ousd.legistar.com/Legislation.aspx>.

A board item posted for the April 3, 2014 board meeting shows that Measure G audits for fiscal years 2010-11 through 2012-13 had not been completed. The status of completion was discussed with the governing board. FCMAT was not provided with audit reports for the bonds, and a review of district board minutes posted on the website did not reveal recent audit reports. The district may be out of compliance in this area. It is imperative that the district post all audit reports on the website for public inspection and comply with state audit timelines.

The district has several small school sites that could be utilized as joint-use, joint-occupancy or surplus property. The governing board would need to take formal action to investigate these options.

Five employees, including a bond analyst and a financial manager, report to the deputy chief, who administers the Facilities Planning and Management Department. To maintain all school facilities of the district, the district is required to fund the Restricted Routine Maintenance Account (RRMA). During the phase-in period established by legislation, the calculation for 2016-17 is the lesser of 3% of the total general fund expenditures for the annual budget, or the amount deposited in the RRMA account in 2014-15. FCMAT tested the RRMA contributions based on the district's adopted budget. Budgeted general fund expenditures and transfers out total \$520,262,634; therefore, the 3% requirement would be \$15,607,879. The district's annual budget has \$13,548,405, or 2.6%, identified for RRMA contributions. Because FCMAT was not provided with the 2014-15 contributions, the district should ensure that the requirements are met for 2016-17 in accordance with the phase-in requirements.

The department reports that completed work orders decreased from 2015-16 to 2016-17 and attributes this to establishing defined departmental guidelines that distinguish the work considered routine repairs from normal maintenance. Open work orders have increased during this same time period. The district indicated that this occurred for several reasons including nine vacancies unfilled because of a hiring freeze; several department employees on medical leave; no substitute pool to replace workers; and no authorization for overtime.

The last facilities master plan was published in 2012. On October 5, 2016, district administration presented to the bond oversight committee an academic master plan that aligns Measures A, B and J with educational needs particularly in the areas of class size reduction and technology. The following is an excerpt from this meeting:

This will be an update to the 2012 long range master planning related to the planning and construction of additions to existing school sites; modernization; reconstruction; demographic study; attendance boundaries; school site grade configuration; feeder patterns; ADA assessment; educational programs and alignment with District's Pathway to Excellence 2015-2020 Strategic Planning; facility condition assessment; and site capacity assessment.

District administration anticipates publishing the new plan in fall 2017.

## Overall Rating: Yes

### 20. General Ledger

- Does the district record all financial activity for all programs accurately and in a timely manner, ensuring that work is properly supervised and reviewed? Yes
- Has the district closed the general ledger (books) within the time prescribed by the county office of education? Yes
- Does the district follow a year-end closing schedule? Yes
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? No
- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? No
- Does the district reconcile all suspense accounts, including payroll, at the close of the fiscal year? Yes

Based on FCMAT's limited review, all financial activity is recorded timely and accurately; however, communication has broken down between the budget and accounting offices, making it possible for financial information to be delayed, making cash reconciliation more difficult and causing the timing of financial transactions to cross fiscal periods.

Communication breakdown between various central office departments and sites make it possible for the coordination of new funds to be delayed in the budget and accounting offices, creating an impact on cash flow and inclusion of grant information in financial presentations.

The district follows a year-end closing schedule and has complied with the closing timelines at year-end.

As noted by the Alameda County Office of Education in its letter dated May 8, 2017, the beginning balances for 2016-17 are incorrectly stated. This must be corrected before the district can close its books for the 2016-17 year because it will cause a "fatal" error in the SACS software, preventing the district from reporting to the state.

Although most accruals and due to/from beginning balances have been reversed, not all have been cleared. The best practice is to reverse all prior year accruals, due to/from, and unearned revenue before the second interim reporting period and no later than January 31 of each fiscal year. Any variances should be properly investigated.

District staff reconciles all suspense accounts during the closing schedule.

## Overall Rating:

**Mixed**

FCMAT's overall rating is summarized in the following table.

Section	Title	Rating
1	Deficit Spending	No
2	Fund Balance	No
3	Reserve for Economic Uncertainty	No
4	Enrollment and Attendance	Mixed
5	Debt	Yes
6	Cash Monitoring	Mixed
7	Bargaining Agreements	No
8	General Fund	Mixed
9	Encroachment	No
10	Management Information Systems	Yes
11	Position Control and Human Resources	No
12	Budget Development and Adoption	Yes
13	Multiyear Projections	Yes
14	Budget Monitoring and Updates	No
15	Retiree Health Benefits	N/A
16	Leadership/Stability	No
17	Charter Schools	Yes
18	Internal Controls and Annual Independent Audit Report	Yes
19	Facilities	Yes
20	General Ledger	Mixed

District scores are summarized as follows:

No responses	8
Yes responses	7
Mixed	4
Not applicable	1
Total	20





## Summary

The district budget is the responsibility of the governing board. Senior management must present sound financial information supported by trend analysis, budget assumptions and multiyear projections based on accurate information for the board to make informed decisions.

Throughout this report, FCMAT has identified leadership breakdown at the governing board and superintendent levels, including the board's inadequate attention to signs of fiscal distress and refusal to consolidate small school sites, allowing school sites full autonomy to make decisions that impact auxiliary services. The board would benefit from in-depth governance training.

There are signs of fiscal distress for Oakland Unified School District. Of particular concern is deficit spending, substantial reductions in fund balance, inadequate reserve levels, approval of bargaining agreement beyond cost-of-living adjustments, large increases in contributions to restricted programs especially in special education, lack of oversight for position control that allows positions to be added before verification of funding and board approval, breakdown in leadership with excessive turnover, and the inability of the governing board to hold accountable administrators that have been allowed to overspend budgets and override board policy.

The district should take immediate action to avoid further erosion of the district's reserve levels and possible fiscal emergency.



## Subsequent Events

Following FCMAT's fieldwork and as this report was being written, the district approved the 2017-18 adopted budget. According to narrative documents provided by the district, budget reductions at the district's central office divisions totaled \$17.6 million. FCMAT notes the following adjustments when comparing the 2016-17 third interim report to the 2017-18 adopted budget:

1. Combined revenues increased \$1.8 million.
2. Combined expenditures decreased by \$8.8 million
3. Indirect costs increased by \$1.1 million to offset operating expenditures, and
4. Contributions to restricted programs decreased by \$2.6 million.

Fund balance increased by \$8.1 million overall based on these budget adjustments and assumptions. FCMAT did not review support documentation and therefore has no opinion on the validity of the projections or assumptions.



# Appendix

## A: Study Agreement



## Appendix A - Study Agreement



CSIS California School Information Services

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### FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT April 24, 2017

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Oakland Unified School District, hereinafter referred to as the district, mutually agree as follows:

#### 1. BASIS OF AGREEMENT

The team provides a variety of services to local education agencies (LEAs). The district has requested that the team assign professionals to study specific aspects of the district's operations. These professionals may include staff of the team, county offices of education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

#### 2. SCOPE OF THE WORK

##### A. Scope and Objectives of the Study

Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis, and determine the district's risk rating.

##### B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Meeting - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.

4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly memorializing the topics discussed in the exit meeting.
5. Draft Management Letter - Electronic copies of a preliminary draft management letter will be delivered to the district’s administration for review and comment.
6. Final Management Letter - Electronic copies of the final management letter will be delivered to the district’s administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested by the district within six to 12 months after completion of the study, FCMAT will return to the district at no cost to assess the district’s progress in implementing the recommendations included in the management letter. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter. FCMAT will work with the district on a mutually convenient time to return for follow-up support that is no sooner than eight months and no later than 18 months after completion of the study.

### 3. PROJECT PERSONNEL

The FCMAT study team may also include:

- |                            |                         |
|----------------------------|-------------------------|
| <i>A. To be determined</i> | <i>FCMAT Staff</i>      |
| <i>B. To be determined</i> | <i>FCMAT Consultant</i> |
| <i>C. To be determined</i> | <i>FCMAT Consultant</i> |

### 4. PROJECT COSTS

The cost for studies requested pursuant to Education Code (EC) 42127.8(d)(1) shall be as follows:

- A. \$650 per day for each staff member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.
- B. All out-of-pocket expenses, including travel, meals and lodging.
- C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon the district’s acceptance of the final management letter.

**Based on the elements noted in section 2A, the total not-to-exceed cost of the study will be \$30,000.**



- D. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent located on 1300 17<sup>th</sup> Street, City Centre, Bakersfield, CA 93301.

**5. RESPONSIBILITIES OF THE DISTRICT**

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
1. Policies, regulations and prior reports that address the study scope.
  2. Current or proposed organizational charts.
  3. Current and two prior years' audit reports.
  4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
  5. Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.
- C. The district's administration will review a preliminary draft copy of the management letter resulting from the study. Any comments regarding the accuracy of the data presented in the management letter or the practicability of the recommendations will be reviewed with the team prior to completion of the final management letter.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

**6. PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

Orientation:	to be determined
Staff Interviews:	to be determined
Exit Meeting:	to be determined
Preliminary Management letter Submitted:	to be determined

Final Management Letter Submitted:	to be determined
Board Presentation:	to be determined, if requested
Follow-Up Support:	if requested

7. **COMMENCEMENT, TERMINATION AND COMPLETION OF WORK**

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its management letter, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft management letter and a final management letter. Prior to completion of fieldwork, the district may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the district does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its management letter and the district will be responsible for the full costs. The district understands and agrees that FCMAT is a state agency and all FCMAT management letter or reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a management letter or report once fieldwork has been completed, and the district shall not request that it do so.

8. **INDEPENDENT CONTRACTOR**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the district. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the district in any manner without prior express written authorization from an officer of the district.

9. **INSURANCE**

During the term of this agreement, FCMAT shall maintain liability insurance of not less than \$1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Oakland Unified School District named as additional insured, indicating applicable insurance coverages upon request, prior to the commencement of on-site work.

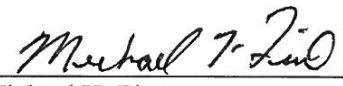
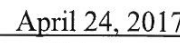
**10. HOLD HARMLESS**

FCMAT shall hold the district, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

**11. CONTACT PERSON**

Name: James Harris, Board President  
 Telephone: (510) 879-8200  
 E-mail: [james.harris@ousd.org](mailto:james.harris@ousd.org)

   
 \_\_\_\_\_  
 Dr. Devin Dillon, Interim Superintendent Date  
 Oakland Unified School District

   
 \_\_\_\_\_  
 Michael H. Fine Date  
 Chief Administrative Officer  
 Fiscal Crisis and Management Assistance Team