

Oakland Unified School District

2018-2020 FISCAL VITALITY PLAN

Recommendations Responsive to the 2017 FCMAT Fiscal
Health Risk Analysis



OAKLAND UNIFIED
SCHOOL DISTRICT

Community Schools, Thriving Students

1st Reading

Preface

The Fiscal Vitality Plan released on December 13, 2017 is a *draft* document available to the public for comment and input. The Oakland Unified School District (OUSD) leadership and staff welcome the feedback of the community over the coming weeks. The final adoption of the plan is anticipated to take place at the first Board of Education meeting in February 2018. It is important to note, that even after the adoption of this document it will remain a critical document used by OUSD staff to guide the stabilization, recovery, and vitality of the school district's financial health. This plan will require ongoing engagement and dialogue among the OUSD Board of Education, staff, and the community at large.

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Executive Summary

Core to the mission of a school district is to maximize the resources afforded to that system by the taxpayers to the benefit of the students that staff serve on a day-to-day basis. Poor management and oversight of the financial operations are an unwelcome distraction that draws attention away from the primary mission and purpose of the educational institution.

Unfortunately, this is the current circumstance for Oakland Unified School District (OUSD). Beginning in the winter of 2016, the school district began exhibiting signs of fiscal distress that continued to progress through the end of the 2016-17 fiscal year and carried into the 2017-18 fiscal year. OUSD ended the

2016-17 fiscal year with a unrestricted fund balance of \$3.4 million, which included a reserve for economic uncertainty of \$2.9 million. Further, the fund balance was \$5 million less than the \$8.4 million projected at the third interim financial reporting period and substantially less than the 2% required minimum reserve. The school district narrowly avoided state receivership by ensuring there was not a negative ending fund balance in the unrestricted general fund.

Understanding the gravity of the situation, staff began to organize to take deliberate steps to reign in spending and evaluate immediate and necessary changes to begin rectifying poor budgeting and financial practices. As a part of those deliberate steps, staff has developed an action plan - the **Fiscal Vitality Plan** - to consolidate and coordinate a series of recommendations to be implemented to support the district on its path to financial health and vitality. The Fiscal Vitality Plan is organized into three chapters - stability, recovery, vitality - that are intended to guide OUSD back on a path back to fiscal health and vitality.

The recommendations in the *stability* chapter (1) cover actions for the school district to implement in the immediate to short-term, one to six months, that will allow the district to stabilize its current situation and plan for the future.

The recommendations in the *recovery* chapter (2) cover actions for the school district to implement in the short- to medium-term, three to twelve months, that will allow the district to recover from its current financial situation and position itself to make decisions to ensure fiscal vitality in the future.

The recommendations in the *vitality* chapter (3) cover actions for the school district to implement in the medium- to long-term, six to eighteen months, that will allow the district to reach fiscal vitality and ensure that its financial practices support the organization’s mission while maintain its fiscal health.

Fiscal Vitality Plan Recommendations

Below is the list of 23 recommendations for action to help rectify OUSD current, poor fiscal health. These recommendations are organized into three chapters as described above. Further, each recommendation identifies the year or years in which the recommendation would be implemented along with which fund or funds in the OUSD budget would be impacted by the recommendation.

Table 1. List of Fiscal Vitality Plan Recommendations

Rec #	Recommendation	Implement Year(s)	Fund(s) Impacted
1.1	Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty	2017-18, ongoing	General, Unrestricted

1.2	Institute adjustments to existing Central Office positions	2017-18	General, Unrestricted
1.3	Maximize the use of restricted revenue resources	2017-18, ongoing	General, Restricted
1.4	Evaluate Central Office-based contracts and books/supplies for possible freeze and capture of savings	2017-18	General, Unrestricted
1.5	Pursue capture of donated days and/or furlough	2017-18	General, Unrestricted
1.6	Adjust school per pupil allocations to capture savings	2017-18	General, Unrestricted
1.7	Institute closer monitoring of contributions to other programs, e.g., special education, nutrition, and early childhood	2017-18, ongoing	General, Nutrition, Child Dev
1.8	Update and implement budget forecast and projection practices	2017-18, ongoing	All
1.9	Review and update cash flow monitoring practices	2017-18, ongoing	All
1.10	Institute immediate protocols to limit and review spending among Central Office and school sites	2017-18	General
2.1	Plan for and adopt a balanced budget that avoids future deficit spending	2018-19, ongoing	All
2.2	Establish and conduct zero-based budgeting sessions with all Central Office practices	2017-18	All
2.3	Research, engage and implement a Central Office reorganization	2018-19	All
2.4	Institute and conduct monthly central office and school site budget monitoring practices	2017-18, ongoing	All
2.5	Review, update and implement effective position control practices	2017-18, ongoing	All
2.6	Develop a process for pre-approval of extra time employee payments	2017-18, ongoing	All
2.7	Review and implement revised contract approval, processing and management procedures	2017-18, ongoing	All
2.8	Complete transition to Escape technology system to manage finance and human resource (HR) information	2017-18, 2018-19	All
2.9	Review and execute on shifts in expenses that maximize the use of restricted funds	2017-18	General, Restricted
3.1	Review and engage school district and school leaders to re-establish	2017-18, 2018-	All

	appropriate budget roles and responsibility	19	
3.2	Establish systems for the management and oversight of bargaining agreements	2017-18, ongoing	All
3.3	Consider and act on recommendations from the Blueprint for Quality Schools review	2018-19, 2019-20	General

This plan is intended to be dynamic and evolve over the coming months and years. Thereby, it should not be treated as a static document but one that should be monitored, updated, and improved over time as new information becomes available to staff.

Brief History and Current Context

Oakland Unified School District has a storied history with its fiscal health and recovery. An excerpt from a 2003 FCMAT report captures this well, stating:

“Another comprehensive review was performed in the fall of 2003 to evaluate the district’s progress on implementing the original recommendations [made in the January 2000 FCMAT report] ... reported that the district had not made any significant progress in addressing deficiencies noted or implementing the proposed recommendations.”¹

Understanding and acknowledging that historically a culture exists characterized by a lack of follow-through and attention to implementation is a vital and important step to ensuring that this is not repeated in the future. This is particularly true of this moment in time, as the school district finds itself on the precipice of another potential state takeover. Fast forward to the 2016-17 school year, the school district began experiencing signs of fiscal distress and the Board of Education took steps to request that FCMAT conduct a review.

2017 FCMAT Fiscal Health Risk Analysis

Evidence of a changing culture was the proactive step taken by the Board of Education to engage the Fiscal Crisis and Management Assistance Team (FCMAT) in 2016-17 as signs began emerging of fiscal distress. FCMAT completed a review of the district’s financial health and associated risk factors on August 15, 2017. The analysis revealed significant weaknesses within the school district’s financial procedures, processes, and controls. Further, the report pointed specifically to the deteriorating fund balance and the recent trend of year-over-year deficit spending by the district. Having identified 12 of the 20 risk factors with a rating of ‘No’ or ‘Mixed’, FCMAT concluded, “The district should take immediate action to avoid further erosion of the district’s reserve levels and possible fiscal emergency.”²

OUSD 2016-17 Fiscal Report (AB 139) from ACOE

Under AB 1200, California’s law establishing the parameters for oversight by county offices of education of school districts in their jurisdiction, clear steps are taken in circumstances that school districts are

¹ Fiscal Crisis and Management Assistance Team (FCMAT). September 30, 2003. *Assessment and Recovery Plan Update, September 30, 2003*. Petaluma, CA. Page 6.

² Fiscal Crisis and Management Assistance Team (FCMAT). August 15, 2017. *Oakland Unified School District: Fiscal Health Risk Analysis*. Petaluma, CA. Page 33.

exhibiting fiscal distress. In the case of OUSD, the Alameda County Office of Education (ACOE) recognized such a trends following its review of the OUSD's 2016-17 1st and 2nd interim financial reporting submissions (in December 2016 and March 2017, respectively). Subsequent to this, ACOE issued a letter to the district on September 15, 2017 under AB 139 reviewing its observations of the district's financial trends over the previous year.³ Many of the ACOE's observations echoed those reflected in the FCMAT Fiscal Health Risk Analysis and also draws attention to cash flow concerns and reminders of the parameters for short-term, temporary borrowing of cash from the Alameda County Treasurer.

Post-Mortem Report to the OUSD Board of Education

At the direction of the Board of Education under resolution 1718-0082: Specifying Details Requested In The Post-Mortem Report On The 2016-2017 Budget Crisis, staff with support from WestEd delivered a post-mortem report on the 2016-17 budget crisis on November 8, 2017. Substantial to the findings in this report were various key drivers that were impacting the financial health of the school district in the structural budget imbalance, revenues and expenditures. The report, among other things, highlighted several key drivers in each area, including⁴:

- Structural Budget Imbalance and Cash Flow: A lack of sufficient controls in place to manage for long-term balance and sustainability following the large infusion of revenues from the Local Control Funding Formula (LCFF);
- Revenues: Based on the use of roll-over budgeting the district was unable to carefully review the multi-year impact of expenditure decisions and revenue changes; and
- Expenditures: Current financial and human resource management systems and procedures are inadequate to ensure there is a robust position control process in place.

Identified as a next step from this report was a more detailed plan that brought forward recommendations that the district could implement to improve its fiscal solvency.

Board of Education Resolution No. 1718-0087

In response to the 2017 FCMAT Fiscal Health Risk Analysis, ACOE letter, and spurred by urgency to address the current fiscal crisis, the Board of Education passed resolution 1718-0087 effectively acknowledging the signals of fiscal distress and directing staff to seek adjustments to the 2017-18 budget

³ Alameda County Office of Education. September 15, 2017. *2016-17 Fiscal Report (AB 139)*.

⁴ Memo to the Oakland Unified School District Board of Education. *2016-17 Budget Crisis Post Mortem Report*. November 8, 2017. Page 3-8.

totalling \$15.1 million and subsequently in the 2018-19 budget another \$11.2 million in reductions. Staff has diligently worked to identify options to reach the targets set out by the Board of Education with a comprehensive update due at its December 13, 2017 meeting.

On the Horizon: Additional Budget Challenges

Further complicating the financial position of the district are externally-driven expenditure pressures. Notable among these are the increased in the employer contributions to the retirement for STRS (certificated employees) and PERS (classified employees). Rates for these retirement programs are projected to triple from the beginning of the rate increases in 2013-14 through 2023-24. This places tremendous pressure on district budgets statewide, effectively requiring reductions in spending in other areas to accommodate forthcoming expenditure increases in this area.

Specific to OUSD, data and analysis conducted during the 2016-17 school year suggests that the school district continues to experience growth in its special education population with many of those students exhibiting a high-level of need. This trend means that not only is the proportion of students with disabilities to the general education population is growing but those students with disabilities are coming to the school district with more severe and costly issues to address.

In both of these additional budget challenges, it confronts the need to anticipate and plan for eventual budget increases that require tighter control over spending for the district in the forthcoming years.

Addressing FCMAT Risk Factors

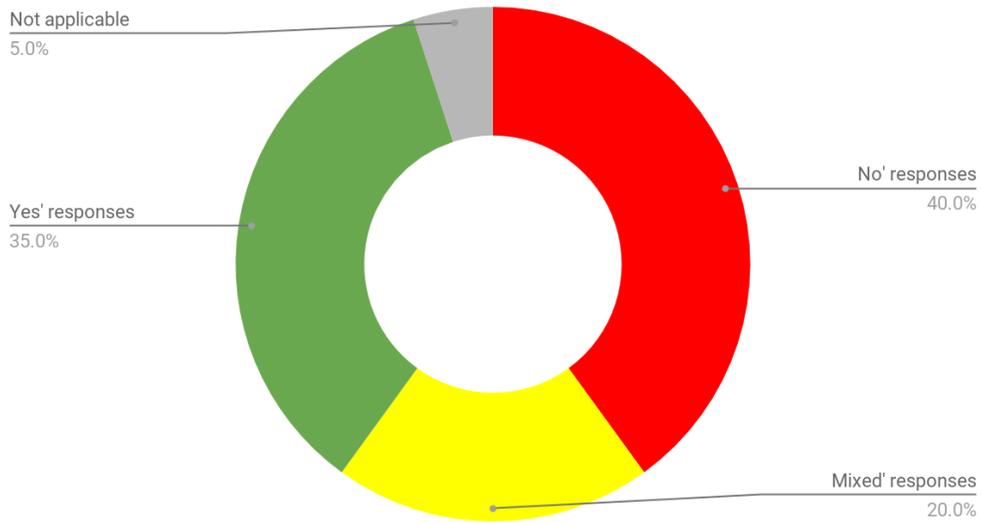
The FCMAT report delivered to the OUSD Board of Education on August 15, 2017 contained an assessment of the 20 risk factors created by FCMAT to support California school districts “to evaluate key fiscal indicators that may help measure a school district’s risk of insolvency in the current and two subsequent fiscal years.”⁵ No single indicator signals fiscal distress, but the report goes on to say, “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 [with a ‘No’ or ‘Mixed’], the greater the risk of insolvency or fiscal issues.”⁶

The report reveals the following overall ratings for OUSD:

⁵ Fiscal Crisis and Management Assistance Team (FCMAT). August 15, 2017. *Oakland Unified School District: Fiscal Health Risk Analysis*. Petaluma, CA. Page 3.

⁶ Ditto.

FCMAT Risk Analysis by Response Type



OUSD received eight (8) ‘No’ responses, which exceeds FCMAT’s threshold for districts at risk of insolvency. Further, another four (4) responses were ‘Mixed’ bringing a total of 60% of the responses as either ‘No’ or ‘Mixed’. The Fiscal Vitality Plan addresses each of the risk factors identified as ‘No’ or ‘Mixed’ in FCMAT’s report. The chart below provides a crosswalk between each of the identified risk factors and recommendations includes in the Fiscal Vitality Plan. Note that three additional factors have been added that were marked as ‘Yes’, but remain vitally important to addressing the school district’s challenges. These include: (a) budget development and adoption, (b) multi-year projections, and (c) internal controls and audit reports.

Table 2. Crosswalk of FCMAT Risk Factors and Fiscal Vitality Plan-Responsive Recommendations

Risk Factor	Rating	Summary FCMAT Recommendations	FVP-responsive Recommendations
Deficit Spending	No	Adopt a plan to eliminate deficit spending	2.1, 2.2, 2.3, 2.4
Fund Balance	No	Monitor contributions and transfers to restricted programs	1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7
Reserve for Economic Uncertainty	No	Develop a plan to restore and maintain reserve	1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7
Enrollment and Attendance	Mixed	Monitoring plan; new housing; industry, charter schools, birthrates; FTE changes	2.1
Cash Monitoring	Mixed	Plan for short-term cash flow needs; inter-fund transfers	1.9

Bargaining Agreement	No	Bargaining beyond COLA must be supported by available fund balance	3.2
General Fund	Mixed	Track one-time revenues with one-time expenditures; plan for realignment or elimination of positions funded	1.3, 2.9
Encroachment	No	Special ed, nutrition and early childhood cost containment; evaluate transportation and bell schedules	1.7
Position Control and Human Resources	No	Tracking, creating, and deleting positions; reconciling HR, budget and payroll systems	1.2, 2.5, 2.6, 2.8
Budget Development and Adoption	Yes	Budget development timeline and procedures	2.1, 2.2, 2.3
Multi-year Projections	Yes	Zero-based budgeting	2.2
Budget Monitoring and Updates	No	Budget exception framework	2.4
Leadership Stability	No	Culture and practices that promote and support systematic reform	3.1, 3.2, 3.3
Internal Controls and Audit Reports	Yes	Ensure continuity and consistency in the application of internal controls	2.4, 2.5, 2.6, 2.7, 2.8
General Ledger	Mixed	Strengthen communication among financial services departments	1.7, 1.8, 1.9, 1.10

Making the changes necessary to achieve and sustain fiscal vitality is not a checklist process, rather it requires systematic changes in policies, processes, and practices. The details contained within the Fiscal Vitality Plan address each of these areas and includes a timeline, which spans multiple years, as complex change takes time, especially if changes are to become part of the new culture of the district.

Chapter 1. Stability

The recommendations in this chapter cover actions for the district to implement in the immediate to short-term, one to six months, that will allow the district to stabilize its current fiscal situation and create some room to plan additional, future changes on the path to fiscal health and vitality.

2017-18 Mid-Year Budget Adjustments

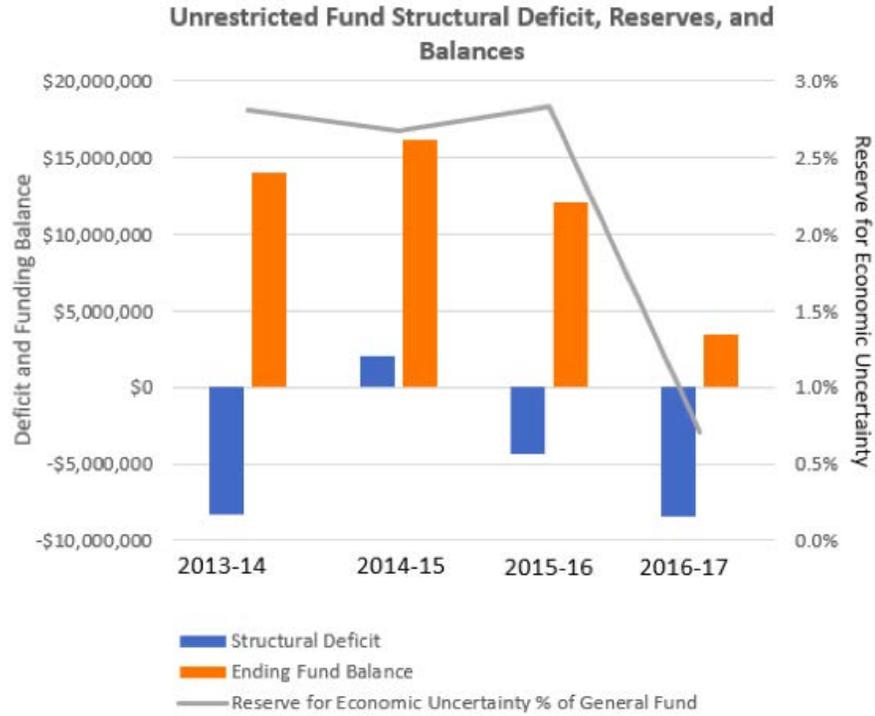
Following the ACOE's letter describing its concerns with the district's budget and fiscal solvency on September 15, 2017, the district developed a plan to institute mid-year budget adjustments for the 2017-18 school year with a goal to address its structural budget imbalance, including rebuilding its ending fund balance to meet the state-mandated minimum reserve levels (2% for OUSD). The following recommendations relate to actions take to identify and implement mid-year budget adjustments.

Recommendation 1.1 - Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty

Overall Impact:	OUSD must maintain its 2% reserve for economic uncertainty as established in California state law to continue to operate under the authority of its local governing board. As of the 2017-18 1st interim financial report, the school district remains \$1.1 million short of meeting that minimum reserve level.
Action Required:	The district has identified mid-year budget adjustments, for the 2017-18 school year, which includes a combination of revenue increases, expense shifts from unrestricted to restricted resources, and cuts, that must be implemented to ensure that the 2% state-mandated minimum reserve is met. Once the Board of Education approves the recommended adjustments, staff will need to implement and monitor those adjustments to ensure savings are realized.
Timeline to Implementation:	The 2017-18 unaudited actuals, at the latest, should ensure that the 2% state-mandated reserve is met. Progress towards closing the current \$1.1 million gap should be seen during the 2nd and 3rd interim, and estimated actuals.
Background:	Both FCMAT and the ACOE have brought this issue to the attention of the district as a vital and mandatory, minimum step to maintaining fiscal solvency and retaining local control over the district's operations. In 2016-17 the district depleted its reserves, therefore options used in the past such as relying on prior year ending fund balances or borrowing from other funds are no longer options.

Rationale:

The 2016-17 Post-Mortem Report highlighted this significant risk factor specifically citing the trend in the district’s ending fund balance and structural deficit as shown in the chart below.



Also, the Board of Education has in place a 3% reserve policy ([BP 3100.1: Financial Reserves](#)) which can be a subsequent goal to re-establishing the 2% state-mandated minimum reserve levels.

Recommendation 1.2 - Institute adjustments to existing Central Office positions

<p>Overall Impact:</p>	<p>To address its structural deficit the district needs to reduce central office operating costs, which necessitates reductions to central office staffing levels. Due to contractual obligations, the district is limited in the types of positions that can be immediately adjusted or eliminated. Through a combination of vacancy savings, reductions, and shifts the district can realize immediate central office personnel cost reductions. Mid-year central office personnel adjustment are estimated to be approximately \$2.1 million.</p>
<p>Action Required:</p>	<p>Given the size of the budget reductions needed for 2017-18, reductions in personnel are needed. The first step the district can take is to implement a hiring freeze for all non-essential positions (excludes any positions required to meet basic health, safety, and other legal or contractual requirements). This action will result in budgeted/authorized positions being left vacant. The district’s adopted budget assumes approximately \$6 million in vacancy savings, which is proposed to increase to \$7.6 million, after instituting a hiring freeze effective November 2017. The district will also need to identify further cuts to existing and filled central office positions. Criteria for identifying such positions as mid-year cuts for 2017-18 include:</p> <ul style="list-style-type: none"> ● Non-essential position (not required to meet basic, health, safety, or contractual requirements) ● Contractual agreements allow for mid-year position elimination (excludes certificated and some management positions) ● Minimal impact on the delivery of instruction and school site operations at school sites ● Not associated with a key district priority <p>The district estimates that approximately 24 FTE central office positions can be eliminated, 16 FTE can reduce assignment level, and 21 FTE can be funded from a non-unrestricted general fund resource, for a total impact of \$2.1 million in savings. Once the district identifies the central office positions that will be eliminated, reduced, or assigned a different funding source for the district to realize estimated savings (1) Human Resource must eliminate identified vacant positions from the personnel system so that they cannot be filled, (2) Human Resources notices affected staff in positions that are reduced or eliminated no later than December 15, 2017 so adjustments can be in effect by January 31, 2018, (3) Budget and Human Resources coordinate to make adjustments to all positions that are shifted from the unrestricted general fund to a new resource and ensure that such personnel are aware of how this shift may affect their duties, (4) Human Resources proposed a process to the Superintendent to manage new requests for central office positions, which will ensure that planned adjustments are made and no anticipated position are added, (5) the Superintendent, or designee, communicates to all central office departments about the hiring freeze and</p>

	updated procedures, (6) Human Resources and Finance teams work together to monitor on a weekly basis changes to review staffing levels and funding for central office personnel including all positions and positive pay.
Timeline to Implementation	As noted above, immediate action is needed. Delays in taking action reduce the amount that will be recognized as part of this savings strategy. All affected positions should be notice no later than December 15, 2017, with adjusts in effect by January 31, 2018. Weekly review of data by Human Resources and Finance regarding open positions, status of eliminated or reduced positions, and confirmation of financial information should take place.
Background:	The District has declined in enrollment significantly over the past 12+ years (approximately 48,000 students in 2003-04 to 36,800 in 2016-17), yet the level of staffing at school sites and the central office have not fully adjusted to the dramatic drop in size of the district. The district is working on a Blueprint for Quality Schools to address its structure and self-sustaining size for central office and school sites, which will provide a helpful plan for future, ongoing adjustments. In the meantime, to address the structural deficit immediate action is needed to minimize operational cost throughout the district, which must include central office reductions.
Rationale:	Salary and benefit costs account for approximately \$281 million, or over 85% of the district's unrestricted general fund expenses. The majority of this funding goes towards site-based services. Addressing the district's structural deficit requires significant reductions to personnel costs given that this represents the largest area of expense in the budget.

Recommendation 1.3 - Maximize the use of restricted revenue resources

Overall Impact:	The district has underspent restricted resources (e.g., categorical funding). While there are limitations and rules with such funding, the district can identify some allowable uses of such funds to delay or offset cuts to programs and staff currently funded in the unrestricted general fund. The 1st interim includes approximately \$2.7 million in such shifts with the potential for approximately \$1.6 million in additional adjustments. While these adjustments provide immediate budget relief, most are one-time in nature because they rely on prior-year categorical program carryover. An ongoing source of funding, or cut will be needed as a permanent solution.
Action Required:	The district has made a number of adjustments that maximize restricted resources as part of each budget revision. By December 31, 2018, the district should rebuild budgets for central office-managed major categorical

	<p>programs (e.g, Titles I, II, III; Educator Effectiveness grant). This requires reviewing allocations and revenues and making revise available balances. Once such balances are known, potential expenses can be identified that are appropriate to charge to such resources and consistent with the rules for allowable use.</p>
<p>Timeline to Implementation</p>	<p>Review of the major centrally-managed resources should be completed by December 31, 2018 with all adjustments reflected in IFAS no later than January 10, 2018. At least two times per month (every other week), review all restricted budgets to confirm spending patterns are consistent with expectations. When deviations are noted (under and over spending) immediate corrective action should be taken. Underspent funds can be redirected to other allowed expenses, and overspent funds will require adjustment in practices or programs to bring expenses in line with the budget. A monthly report of the status of the restricted shifts and resources should be prepared for review by the Superintendent.</p>
<p>Background:</p>	<p>The district has identified some opportunities maximize federal funds as reflected by the shifts included in the 1st interim. WestEd reviewed carryover balances and 2017-18 grant award amounts for major centrally-managed restricted resources (e.g., Titles I, II, and III) and found significant balances in such programs. Some of the available resources are reflected in the 1st interim. A systematic review and ongoing management will ensure that the district has maximized to the fullest extent possible its restricted resources and realizes planned adjustments.</p>
<p>Rationale:</p>	<p>The district receives approximately \$144 million in restricted resources, of which approximately one-third are from federal sources. While the district has overspent unrestricted resources, it has accrued balances in some major restricted resource accounts. Maximizing restricted resources allows the district to delay or offset potential reductions in high priority areas that are aligned with restricted program rules.</p>

Recommendation 1.4 - Evaluate Central Office-based contracts and books/supplies for possible freeze and capture of savings

Overall Impact:	Reduction or elimination to non-essential contracts yields 2017-18 savings of approximately \$0.9 million (\$0.4 contracts, \$0.5 books and supplies).
Action Required:	<p>The district has reviewed all existing contracts that it is aware of and should continue to review records to ensure that this information is accurate and complete. Information about contracts and books and supplies are included in the Zero-Based Budget process (ZBB, see Recommendation 2.2). Information from the ZBB should be compared to existing contract lists to identify any exceptions to the list. Immediate action should be taken to resolve exceptions to ensure that they are accurately budgeted for. The contract expenses that are identified for reduction or elimination should be reviewed with Legal to determine steps needed to notify and cancel services. The district unit responsible for oversight of the requested services must receive clear communication regarding the reduction or the stoppage of services to ensure their management and direction for such services is consistent with the budget reduction. For books and supplies, adjustments based on the ZBB findings should be made and reflected in IFAS by December 30, 2018.</p> <p>At least two times per month (every other week), review all contract and books and supply budgets to confirm spending patterns are consistent with expectations. When deviations are noted (under and over spending) immediate corrective action should be taken. A monthly report of the status of the contracts and books and supplies should be prepared for review by the Superintendent.</p>
Timeline to Implementation	Adjustments to contracts and books and supplies should be determined by December 30, 2017 with all changes reflected in the budget by January 15, 2018.
Background:	FCMAT and the post-mortem report identified weaknesses in internal controls as a contributing factor to the district’s financial condition. The district has a history of unpaid invoices, which means that there is not an authorizing contract or purchase order in place prior to services being rendered. This has contributed to unbudgeted expenses, which must be managed and non-essential contracts should be reduced or eliminated. With respect to books and supplies, the district has a practice of using this line item as placeholder with the budget for later allocation. Given the noted challenges with internal controls a tighter process for estimating and

	budgeting for planned and known expenses is needed to effectively manage the budget to realize fiscal improvements.
Rational:	While a much smaller portion of the district’s expenses that salary and benefits, expenditures related to contracts, books and supplies can be adjusted without the restrictions of collective bargaining agreements and other legal requirements. However, some contracts (e.g., special education transportation) and books and supplies are essential to the ability of the district to operate. Addressing the district’s structural deficit requires significant reductions to all areas and this must include contracts, books and supplies.

Recommendation 1.5 - Pursue capture of donated days and/or furlough

Overall Impact:	The district has asked for voluntary furloughs by senior leadership and is in discussions with its collective bargaining units regarding potential voluntary furloughs to avert layoffs. The estimated financial impact is one-time savings of approximately \$0.2 million in 2017-18.
Action Required:	The district needs to provide the Payroll unit with a complete list including identifying information for the staff making voluntary furloughs, effective dates (to and from), number of days or percent time. The Payroll unit should prepare at least monthly a report for the Superintendent, or designee, that reflects total adjustments to support monitoring of anticipated savings from furloughs.
Timeline to Implementation	Adjustments should be reflected in the budget and payroll by December 31, 2017 with monthly reports provided effective January 2018.
Background:	The district's senior leadership have identified this strategy as a means to contribute to the solution set for the structural budget deficit. The donations range from approximately 5-10 unpaid work day, which are scheduled to have minimal operational impact.
Rationale:	This action directly offsets reductions that would otherwise be needed from other areas of the district's budget, including personnel reductions.

Recommendation 1.6 - Adjust school per pupil allocations to capture savings

Overall Impact:	School site leaders identified options to make site level reduction, if such reductions are needed to address the structural budget imbalance.
Action Required:	Meet with Principals to review “ <u>Finance Team Identified Savings/Reduction Options</u> ” and make recommendations from school site perspective. School Leaders recommended site decision making in how to make reductions. District leadership consider information from sites and budget staff to determine the percentage reduction to all sites and a per pupil reduction and found the per pupil reduction was more equitable. Communicate decisions to principals indicating target amounts and recommendations for reductions at school sites. At least two times per month (every other week), review all site budgets to confirm spending patterns are consistent with expectations. When deviations are noted (under and over spending) immediate corrective action should be taken. A monthly report of the status of site budgets should be prepared for review by the Superintendent.
Timeline to Implementation	Notified sites of their target amounts for reductions in November 2018. Finalize estimated reductions by December 31, 2017 and implement all changes by January 15, 2018.
Background:	The district provides significant allocations and discretions to sites to plan and budget for this needs under the results-based budgeting processes. Sites are able to determine levels and types of staffing and other investments, which they reflect in their site-level plans. The level of autonomy provided to sites is a notable feature of the district’s approach to budgeting and represents a significant proportion of the district’s resources.
Rationale:	Over 75% of the district’s budget expenditures are related to school site services or expenditures. A larger proportion of cuts have been made to the central office relative to the amount of the budget that goes towards central office/centralized services and school sites. Given the size of the structural deficit and composition of the district’s budget some reductions to funding to school-level services are inevitable, but can be minimized through careful district management.

Immediate Changes to Monitoring and Forecasting Practices

Staff recognize the need for immediate changes to existing monitoring and forecasting practices to implement cost containment and expenditure reduction plans in the coming months and years. The following four recommendations address changes to monitoring vital elements of the budget that historically contribute to overspending.

Recommendation 1.7 - Institute closer monitoring of contributions to other programs (e.g., special education, nutrition, and early childhood education)

Overall Impact:	Closer monitoring of the programs that significantly contribute to transfers from the unrestricted General Fund are needed to actively manage the expenses associated with such programs with the goal of containing or decreasing the overall negative impact to the ending fund balance.										
Action Required:	For each of the departments - special education, nutrition services, and early childhood education - both program and budget staff identify the specific revenue generation and cost drivers for each program (e.g, meals served eligible for reimbursement). Create a method to track, report, and review these revenue generation and/or cost drivers on a monthly basis along with other standard budgeting reporting to ensure there is appropriate cost containment. Establish a protocol to flag changes in trends among those key metrics that may impact the projected budget and spending for the program. When deviations are noted (under and over spending) immediate corrective action should be taken. A monthly report of the status of identified budgets should be prepared for review by the Superintendent.										
Timeline to Implementation	Currently there is some monitoring of these program, but they are uneven in their implementation. Projected April 2018 for full implementation of this recommendation.										
Background:	<p>Challenges containing costs for restricted programs have been identified by multiple sources, including district-level analysis. For example, growth in special education contributions between 2013-14 unaudited actuals and the 2017-18 1st interim:</p> <table border="1" data-bbox="618 1478 1239 1824"> <thead> <tr> <th data-bbox="618 1478 935 1577">Fiscal Year</th> <th data-bbox="935 1478 1239 1577">Special Education Contribution</th> </tr> </thead> <tbody> <tr> <td data-bbox="618 1577 935 1640">2013-14</td> <td data-bbox="935 1577 1239 1640">\$41,200,568</td> </tr> <tr> <td data-bbox="618 1640 935 1703">2014-15</td> <td data-bbox="935 1640 1239 1703">\$45,349,755</td> </tr> <tr> <td data-bbox="618 1703 935 1766">2015-16</td> <td data-bbox="935 1703 1239 1766">\$51,534,414</td> </tr> <tr> <td data-bbox="618 1766 935 1824">2016-17</td> <td data-bbox="935 1766 1239 1824">\$56,292,846</td> </tr> </tbody> </table>	Fiscal Year	Special Education Contribution	2013-14	\$41,200,568	2014-15	\$45,349,755	2015-16	\$51,534,414	2016-17	\$56,292,846
Fiscal Year	Special Education Contribution										
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2017-18 (1st interim)	\$58,042,799		
Rationale:	In total, unrestricted General Fund transfers out/contributions total nearly \$72 million each year to a variety of programs, most significantly special education. Effective practice suggests that when program and fiscal staff work together to identify the major contributors to potential cost increases, that the program can better plan to mitigate those expenses in the future.		

Recommendation 1.8 - Update and implement budget forecast and projection practices

Overall Impact:	Ensuring effective budget forecast and projection practices is crucial to make sound decisions that ensure good financial health and eliminate the structural budget imbalance.
Action Required:	<p>To ensure accurate and realistic forecasting practices, staff should consider at the line items and total level: (1) trend analysis and historical patterns, and (2) new, updated information that would influence the anticipated expenditure for that line item(e.g., vacancy savings, certificated long-term subs).</p> <p>Further, these analyses for the budget should include feedback loops by peers or other finance staff that includes reviewing assumptions to gain consensus and incorporate other perspective prior to making final adjustments to the budget for reporting periods.</p>
Timeline to Implementation	Such analysis should be completed as part of the preparation for the 2nd interim and continue in subsequent budget revision and development cycles.
Background:	Both the FCMAT Fiscal Health Risk Analysis and the 2016-17 Budget Crisis Post-Mortem Report call out budget forecast and projection practices as a contributing factor to the district’s current, weak financial position.
Rationale:	Analysis of the district’s line item and the variances between multiple reporting periods (months or years) displays substantial fluctuations that suggest the accuracy of forecasts are not robust. Examples of this are included in the Board of Education’s Resolution No. 1718-0087, Attachment 1: Recent Fluctuations and Expenditure Increases.

Recommendation 1.9 - Review and update cash flow monitoring practices

Overall Impact:	Cash flow is a vital element of any organization’s operation as it allows the district to make routine payments necessary for regular business operations, such as payroll or vendor invoices. The district has routinely employed short-term borrowing from the Alameda County Treasurer, which adds interest and transactional costs and						
Action Required:	<p>To improve cash flow the District needs to reduce or eliminate the General Fund structural budget deficit and, stabilize/rebuild the reserve for economic uncertainty.</p> <p>To ensure accurate cash flow projections staff needs to maintain accurate cash flows for all funds and continue to closely monitor and manage cash flow for all programs and funds on a monthly basis.</p> <p>Staff need to ensure that all accounts – revenues, expenditures, assets, and liabilities – are reconciled monthly. Accounts receivable and payable balances should have cleared early in the fiscal year.</p>						
Timeline to Implementation	Some current, effective practices are in place. Full implementation by March 2018.						
Background:	Various reports and reviews - including the FCMAT Fiscal Health Risk Analysis and letter from the ACOE - indicate concern with the status of the school district’s cash flow statements. This issue was also raised in the post-mortem report and associated with the structural imbalance in the school district’s budget.						
Rationale:	<p>There are primarily two reasons for this recommendation. First, districts in California have significantly reduced their need to use tax revenue anticipation notes or take short-term, temporary loans from outside sources to support their cash flow - particularly, after the dramatic increases in funding through the LCFF and the elimination principal apportionment deferrals. Second, the trend in year-end cash balances in June of each year for the school district is worrisome. See below for a trend of these cash balances.</p> <table border="1" data-bbox="625 1648 1247 1837"> <thead> <tr> <th data-bbox="625 1648 958 1711">Fiscal Year</th> <th data-bbox="958 1648 1247 1711">Cash Balance</th> </tr> </thead> <tbody> <tr> <td data-bbox="625 1711 958 1774">2014-15</td> <td data-bbox="958 1711 1247 1774">\$13,586,222</td> </tr> <tr> <td data-bbox="625 1774 958 1837">2015-16</td> <td data-bbox="958 1774 1247 1837">\$39,882,889</td> </tr> </tbody> </table>	Fiscal Year	Cash Balance	2014-15	\$13,586,222	2015-16	\$39,882,889
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Recommendation 1.10 - Institute immediate protocols to limit and review spending among Central Office and school sites

Overall Impact:	Unanticipated/unbudgeted expenses have created significant challenges to the district’s budget, as evidenced by the rapid decline in the ending funding balance. For the district to stabilize the budget, it must create protocols to realize expected reductions and introduce discipline in the planning, use, and management of resources.
Action Required:	<p>To realize the savings desired from the temporary and immediate protocols that Central Office and schools are bound by, there necessarily has to be a monitoring system to ensure that savings are captured. The following, at a minimum, steps are suggested:</p> <ul style="list-style-type: none"> ● Identify those expenditure line items, e.g., travel, food, etc. that the school district wishes to limit; ● Clearly communicate and over communicate the message about the restrictions being placed on the purchase of certain items including date ranges for the protocol, pathway for answering questions; and ● Monitor and follow-up via monthly Central Office and school site budget monitoring (ensure that the financial services team have had a chance to listen the next meeting. <p>School district staff have recently published a memo that hits on two items - decisions on what will be limited in spending and communicating with others. A link to the most recently published memo can be found in Appendix A.</p>
Timeline to Implementation	Immediate (1-2 weeks) with full implementation of protocol within 3 months.
Background:	Several of these immediate spending protocols mimic some of the other, systemic internal control procedures that will be vital to instituting these practices across the organization. The matter of building tighter and more effective internal controls has been mentioned by the FCMAT Fiscal Health Risk Analysis, the 2016-17 Budget Crisis Post-Mortem report and the letter to OUSD from the county office of education.
Rationale:	Some of the non-labor items over the last several years have continued to spend more than their budgeted item. Therefore , these immediate protocols help to potentially curtail trends.

Chapter 2. Recovery

The recommendations in this chapter cover actions for the school district to implement in the short- to medium-term, three to twelve months, that will allow the district to recover from its current financial situation and position itself to make decisions to ensure fiscal vitality in the future.

Budget Development

The budget development process for a district is the beginning of a two-year process in which the organization establishes for itself how it will invest resources to achieve its stated goals. Perhaps more importantly, a budget for a public entity represents how taxpayers’ investments are used to advance the social good of the community. In the context of the school district it is the investment in the educational and success of future generations of the Oakland community. The following recommendations offer a pathway to re-establish a strong and formidable foundation budget built on evidence-based and reasonable assumptions of what will likely to transpire in the subsequent fiscal year.

Recommendation 2.1 - Plan for and adopt a balanced budget that avoids future deficit spending

Overall Impact:	Setting up, checking, and making transparent the major assumptions that drive the revenue and expenditure in the budget are the most critical element to ensuring a balanced budget and avoids deficit spending.
Action Required:	<p>There are several key actions required for this recommendation:</p> <ol style="list-style-type: none"> 1. Clearly identify vital assumptions for projecting the anticipated impacts to revenue and expenditures in the subsequent school year (e.g., anticipated COLA increases, changes in federal revenue allocations, increases in STRS/PERS employer contributions). 2. Conduct analysis to understand what aspects of the current year budget need to be appropriately adjusted in the forthcoming year to correct for over-spending or adjustments in major program design and strategy deployment. 3. Identify, prioritize and fund those strategies and actions that will be able to be executed in the subsequent school year against available revenues to prevent the over-allocation of funding. 4. Unique to OUSD, develop subsequent materials - handbooks and one-pagers - that schools and Central Office departments can use to guide their allocation decisions for the subsequent school year during the lock-in sessions, ensuring that there is not an over-

	<p>allocation of funds.</p> <p>5. Following the allocation of funds, the district should develop a system by which Central Office departments or schools are able to raise items that may have been missed during the lock-in sessions.</p> <p>And</p> <p>It is important to note that the preparation for the 2018-19 fiscal year will vary as a result of OUSD implementing a zero-based budgeting (ZBB) process for this year.</p>
Timeline to Implementation:	Implementation of these action steps will be completed by June 2018 for the 2018-19 budget cycle.
Background/Rationale:	<p>Several of the recent reviews of the school district’s finance and business operations, including the FCMAT Fiscal Health Risk Analysis and the post-mortem report, revealed that the development and management of the assumptions that build the adoption budget are not sufficient to be able to ensure that there is common and agreement about those assumptions that other staff are able to follow and justify.</p> <p>The importance of establish agreed upon, core assumptions for the adoption of a budget is paramount because it is in large part what other central office departments and schools will build their own assumptions from, e.g., number of staff, available amount of money for non-labor expenses, etc.</p>

Recommendation 2.2. - Establish and conduct zero-based budgeting sessions with all Central Office departments and schools

<p>Overall Impact:</p>	<p>Ensure that there is a balanced budget for 2018-19 centered on the assets and strengths of each department. Zero-based budgeting will provide the district with the opportunity to evaluate every department and school to ensure each is receiving an accurate level of funding, determine actual expenditure needs, reduce wasteful spending, and coordinate communication across and between departments.</p>
<p>Action Required:</p>	<p>To begin the 2018-19 budget development process, the district will review and rebuild all central office department and site budgets through a process called zero-based budgeting. This process requires identifying and justifying all expenses for inclusion in the budget. Zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs.</p> <p>All departments and sites will meet with a team that includes a WestEd facilitator and staff from Budget and Human Resources for one-hour from December 11-19. Each department will come to the meeting with a completed zero-based budget worksheet and a team prepared to discuss the expenses requested for 2017-18 and 2018-19. Based on the information that is shared, WestEd will work to develop a preliminary budget that is discussed further with each department and site leader as part of the mid-year reduction and 2018-19 budget development process.</p> <p>Furthermore, consider updating site allocation formulas to support greater accuracy and efficiency in the budget process. This would include providing staffing allocations that build in actual staffing needs (e.g., round up, incorporate buffer into allocation ratio that's better aligned to actual ratio), which would eliminate or reduce cycles for appeals and the staff time associated with planning and processing such changes.</p>
<p>Timeline to Implementation</p>	<p>Immediate (1-2 weeks) with full implementation of protocol within 3 months.</p>

<p>Background:</p>	<p>In previous years, the district rolled prior-year budgets and used average salaries to create the budget. While rolling prior-year budgets and adjusting for appropriate increases in expenditures is common practice, the district has not taken time to evaluate how the budgeted expenditures impact the priorities of the district. In addition, departments and school sites have not exercised a review process to determine if all projected expenditures are reflected in the budget in an effort to avoid unfunded priorities.</p>
<p>Rationale:</p>	<p>The current financial challenges of the district strongly suggest that the organization evaluate and review every opportunity to bring expenditures in line with available revenues. Every year the District has an unfunded list that was not accounted for in the budget and we need to create a strong foundation. This process allows the organization to more clearly understand where those opportunities may be and ensure an accurate budget.</p> <p>During 17-18, the organization is going through a reorganization within the Central Office and the information gathered during these sessions will be one of several data sources used to arrive at the final decisions.</p> <p>In anticipation of forthcoming activities for the budget development process, information from these sessions will be the starting point to help inform department leads, Financial Services staff, and Human Resources staff about the possible and potential needs of the organization. These sessions will also provide a foundation for the lock-in sessions planned in February of next calendar year.</p>

Recommendation 2.3 - Research, engage, and implement a Central Office reorganization

Overall Impact:	Reduce the number of senior-level staff at the central office to align with the number of students enrolled in the district. Reorganization of central office positions will increase accountability and ownership of responsibilities while decreasing duplicative roles and functions and minimizing costs for central office support.
Action Required:	Identify impact of roles and responsibilities of central office leadership to foster an efficient and effective leadership structure. Clarify central office services, maximize efficiency, and develop focus for the district to achieve its core mission to meet the needs of students. Develop a revised organizational chart that reflects clear reporting relationships and functional responsibilities.
Timeline to Implementation	The initial phase involves review and planning to establish structure and staffing levels for 2018-19. This will be completed as part of the zero-based budget process and will result in a recommendation to the Superintendent. After initial planning, measures must be taken to notice staff of any position changes or reductions, which should take place by March 15, 2018. The focus from March 2018 to June 2019 is on implementation and effective transition to the new staffing levels and structures.
Background:	Oakland is a community with a strong heritage, a vibrant and supportive parent and community population, and a vision for future achievement. While this devotion is remarkable, in order to sustain a fiscally solvent district, it is imperative to have an administration that is comparable to support the needs of district.
Rationale:	Public school comparison data reveals that Oakland Unified School District has the relatively high ratio of public school central office staff per student (1:233). Additional comparison data indicates a high number of deputy chief, executive director, and director level positions. Attaining and sustaining fiscal solvency requires process improvement, clear delineation of roles and responsibilities, and right-sizing the central office.

Internal Controls

Among the most important of practices for any organization to maintain fiscal health is the presence of its internal controls. Internal controls are a system of practices, procedures, and policies intended to safeguard the assets of the organization from fraud or error and to ensure accurate record-keeping. Management techniques and tools for ensuring that financial policies and procedures are being adhered to according to previously established standards is vital. The four recommendations that follow capture major improvements to the school district’s monitoring and control systems.

Recommendation 2.4 - Institute and conduct monthly central office and school site budget monitoring practices

Overall Impact:	Prioritizing monthly budget reviews with leaders will allow for the district to identify in advance budgetary cautions that can be addressed on a regularly scheduled basis rather than waiting until a formal reporting period such as interim reports to address and resolve challenges.
Action Required:	Standardize a financial report format for key budget information to be used to report out and flag concerns such as high, uncommitted balances in particular areas or low balances where we typically have high levels of expenditure. Establish a budget exception framework in which collectively staff will identify acceptable variances by line item for the schools and Central Office departments’ budget that are being reviewed. Engage Central Office and school leaders in training to understand the budget exception framework and frequency of meetings, likely monthly. Determine the district forum in which these reports and concerns will be reviewed. Some examples could include either a monthly memo, postings on the fiscal transparency web page, or presentation in various leadership meetings.
Timeline to Implementation:	Initial piloting and refinement to February 2018. Then, formal rollout in March 2018.
Background/Rationale:	The FCMAT review, post-mortem report, and WestEd findings identified significant weaknesses in central office internal controls. This has led to delays in fully understanding risk area and taking corrective action.

Recommendation 2.5 - Review, update and implement effective position control practices

Overall Impact:	Position control is a critical function to ensure that staffing levels are consistent with planned needs and that all positions in place are adequately included in the budget. This is especially important as the district is adjusting staffing to address its structural budget deficit.
Action Required:	<p>The district needs to regularly reconcile payroll, budget and position control reports to identify misaligned information. A list of all misaligned positions is needed and should be validated to ensure they are both Board approved and included in the budget. Any deviations should be addressed through corrective actions that lead to a budget identified for all valid positions.</p> <p>A similar routine analysis should be conducted to validate position vacancy list including consideration of the need for the vacant position (e.g., do vacancies support health, safety, or critical needs) and if the vacancy is to be retained, eliminated, or delayed.</p> <p>Finally, the district should also review and update policies and practices for position control to ensure that they meet the standards for best practice. Confirm that current practices include (1) clear delineation of duties between the workflows of human resources, budget, and payroll functions, (2) include the signatory authorization workflow to confirm that it reflects that all positions must be verified as budgetary funded prior to being submitted for Board approval, (3) the position control system is updated regularly to reflect the actions taken by the Board to add/change or eliminate positions, (4) the position control database includes positions for supplemental positions such as stipends and coaching, (5) training is provided to staff (Central Office and Sites) on the updated policies and practices, and (6) there is a separation of duties between business and personnel department.</p>
Timeline to Implementation	<p>December 2017-February 2018</p> <ul style="list-style-type: none"> ● Phase 1- Review and update current policies and practices December 2017-February 2018 ● Phase 2- Train all staff March 2018-August 2018
Background:	The August 2017 Fiscal Health Review completed by the FCMAT rated the District as not having an effective and reliable position control system in place. Furthermore, the ACOE review of the notes a structural deficit that needs to be immediately addressed to ensure both fiscal and educational solvency.

Rationale:	<p>Most of the District’s unrestricted general fund expenditures are for personnel. This is a combination of the cost of salaries, benefits, and payroll related costs for the district’s employees. A position control system is the method by which a school district can integrate information from budget, human resources, and payroll to appropriately manage this significant portion of the budget.</p> <p>Position control is a key connection between human resources, budget, and payroll and, 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.</p> <p>Reducing and/or eliminating vacant positions in the 2017-18 budget will generate budget savings for the current and future fiscal years. Additionally, reducing vacant positions could positively impact (lessen the number of people affected) if a reduction in force is needed.</p> <p>The district’s current position control system and applicant tracking systems are not integrated with the budget development system or the payroll system. The district will be transitioning to a new fiscal data management system, Escape Technologies in June 2018 that should provide the opportunity for full integration of applicant tracking, position management, budget development and payroll. The district needs to update its current policies and practices to reflect a robust level of integration and cooperation between departments to optimize the capacity of the new fiscal reporting system to support strong fiscal management.</p>
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Recommendation 2.6 - Develop a process for pre-approval for extra time employee payments

Overall Impact:	Eliminate budget overruns due to the lack of monitoring/approval of approval of extra time employee’s payments.
Action Required:	Create a work group to discuss developing a process to support an efficient and effective process to pre-approve payments and monitor budgets for employee extra time. Train all staff (Central Office and Sites) on the updated policies and practices.
Timeline to Implementation	March 2018 to June 2018
Background:	FCMAT and ACOE have noted the lack of internal controls, including position control and payments to personnel as an issue contributing to the district’s fiscal challenges.
Rationale:	Eliminating budget overruns will support generating budget savings for the current and future fiscal years.

Recommendation 2.7 - Review and implement revised contract approval, processing and management procedures

<p>Overall Impact:</p>	<p>Contracting services provide supplemental support to district employees. The process for reviewing, approving, and managing contracts is critical to the management and control of the budget. Clear criteria for appropriate contracted services, efficient processes to issue contract and manage contractors is critical to ensure this area of expenditures is strategic and supportive of district priorities.</p>
<p>Action Required:</p>	<p>There are several key actions that the district should institute in the short- and long-term for the contract approval, processing and management process. These include:</p> <ol style="list-style-type: none"> 1. Implement a short-term process to limit or cancel spending on services contracts that are not a necessity and critical to the current top priorities of the organization or serve a primary function. See Appendix A for the school district’s latest communication to staff. 2. Conduct a full review of the existing contract process and document the current process map to understand roles, responsibilities and opportunities for improvement. 3. Revise and update procedures to ensure that critical, internal controls are in place, e.g., work by a contractor does not begin before the contract is either signed (and a purchase order is issued) or the contract is approved by the Board of Education (and a purchase order is issued). 4. Identify and publish those staff members responsible for important steps in the process, e.g., legal review of contract, verification of available funds, invoice processing 5. Create a process to surface, discuss and resolve exceptions to the process, e.g., contractor submits an invoice without a contract.
<p>Timeline to Implementation</p>	<p>The first step in the process is currently in implementation. The subsequent steps can be reviewed by March 2018 with full implementation by May 2018.</p>
<p>Background/ Rationale:</p>	<p>Several of the reports have pointed to the necessity to review and better manage the contracting process specifically. This is further corroborated by the existence of circumstances that indicate procedures are not being followed (e.g., large amounts of unpaid invoices from contractors that do not have an associated budget).</p>

Financial and Human Resource Information System

The school district has long been a user of the IFAS finance and HR information system. With the advent of Escape for the organization it will bring with it a series of more efficient and effective practices. The recommendation below provides an overview of that shift in technology systems.

Recommendation 2.8 - Complete transition to Escape technology system to manage finance and human resource (HR) information

Overall Impact:	The transition to ESCAPE supports the district’s goal toward fiscal vitality and is a critical step towards achieving more streamlined business practices and developing better system controls. In addition, these coordinated efforts will also enable us to have accountability as we work to achieve fiscal vitality and keep students at the center.
Action Required:	<p>A team from Escape and other vendors, are currently supporting the implementation process as well as developing training and support for successful integration into the District's business operations.</p> <p>Administrators and support staff are strongly encouraged to participate in trainings for the ESCAPE system in effort to improve on fiscal efficiencies and operations.</p> <p>The District is asked to fully support staff in the teaching and learning of the transition from IFAS to ESCAPE.</p>
Timeline to Implementation:	<p>ESCAPE is on track to go live July 2018.</p> <p>Trainings will be held for CORE users, POWER users and all END users during the spring and early fall of 2018</p>
Background:	October 26, 2016, the OUSD Board of Education approved replacement of our current financial management system (IFAS) with Escape. The decision was made after years of dealing with growing challenges experienced with IFAS functionality and its ability to keep up with demands of various reporting requirements. IFAS (the current financial system) has reached its peak in serving in such a high capacity.

Rationale:	<p>With the need to drastically improve systems that impact our fiscal health in areas of better management, monitoring and reporting, the District is excited about the transition to ESCAPE.</p> <p>Escape, which is supported and hosted by ACOE, will be integrated across the District and become our central source for financial, payroll and human resource operations. This new system was designed specifically for California K-12 education and can handle every aspect of our accounting, budgeting, and procurement needs electronically.</p>
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Revenue Maximization

While the focus on cost containment is critical to live within any organization’s means there is also the opportunity to identify ways in which to maximize revenue. The recommendation noted below aims to review and identify opportunities to shift expenditures to legal uses of restricted funds.

Recommendation 2.9 - Review and execute on shifts in expenses that maximize the use of restricted funds

Overall Impact:	In 2017-18 at 1st interim the district identified approximately \$2.7 million in shifts that leverage federal fund with a target to identify approximately \$1.6 million in additional adjustments. While a significant portion of these shifts are one-time in nature, a full review of the categorical resources, including all program and site allocations, will support stronger alignment of the use of such funds to meet district priorities and may yield options to fund priorities of the district.
Action Required:	<p>Actions that are required to implement this recommendation include:</p> <ol style="list-style-type: none"> 1. Review all current allocation methods (to sites and departments) to identify how to best align allocations to district and site priorities. 2. Review projected balances to identify potential for redirection of funds to other used consistent with program rules and district priorities. 3. Develop allocation scenarios that reflect alignment of funding to needs and review scenarios with site and department leaders for input. 4. Select allocation methods that will be used for site and department budget development and prepare allocations for 2018-19 budget.
Timeline to Implementation:	Complete review of current allocation methods and scenarios by January 31, 2018 with aim to finalize allocation method and preliminary amounts for 2018-19 by March 2018. Incorporate into the budget development calendar annual review of balances, allocations, and funding use to ensure maximization of restricted resources
Background:	The district has identified some opportunities maximize federal funds as reflected by the shifts included in the 1st Interim. WestEd reviewed carryover balances and 2017-18 grant award amounts for major centrally-managed restricted resources (e.g., Titles I, II, and III) and found significant balances in such programs. Some of the available resources are reflected in the 1st Interim. A process for ongoing systematic review and management will ensure that the district has maximized to the fullest extent possible its restricted resources to meet district identified priorities and needs.

Rationale:	The district receives approximately \$144 million in restricted resources, of which approximately one-third are from federal sources. Maximizing restricted resources allows the district to ensure all district resources are used to address high priority areas with alignment to restricted program rules.
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Chapter 3. Vitality

The recommendations in this chapter cover actions for the school district to implement in the medium- to long-term, six to eighteen months, that will allow the district to reach fiscal vitality and ensure that its financial practices support the organization’s mission while maintain its fiscal health.

Budget Manager Roles and Responsibilities

Important in determining roles and responsibilities for budget managers is ensuring that there is clarity and communication about who is taking on what action or task relative to their responsibility. The school district continues to retain its Results-Based Budgeting (RBB) policy for its schools (see Appendix B) and continues to require an important and vital feature of understanding the delineation of responsibilities among school leaders and the budget department. The following recommendations help to address more clearly how to arrive at those roles.

Recommendation 3.1 - Role, responsibility of school district and school leaders with budget oversight

Overall Impact:	Vital in the role of building and maintaining a balanced budget is clarity about the roles and responsibilities of staff involved in those processes. Notably, this is not simply the staff in the budget department - all individuals are responsible for the management and oversight of the budget to some degree.
Action Required:	OUSD should launch a process to review, revise and update its procedures specific to the roles and responsibilities of school district and school leaders related to budget oversight. See below in the timeline for additional information.
Timeline to Implementation	There are several proposed deliverables under this recommendation including: <ul style="list-style-type: none">● February 2018: clarity on roles and functions for key financial and leadership staff in the budgeting and oversight process● Spring 2018: launch process to gather feedback from Central Office and school sites about their roles and responsibilities in the budgeting and oversight process● Fall 2018: propose a series of recommendations to update and reflect the budgeting and oversight process relative to current staff

Background/ Rationale:	The FCMAT Fiscal Health Risk Analysis report specifically identifies the current challenge around budget oversight and decision-making citing specifically the varying degree of understanding and authority for budgeting decisions which is contributing to a breakdown in some of the existing internal controls that are in place with healthy educational organizations.
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Other, Long-term Actions Towards Vitality

The management and oversight of the budget is critical function for any organization. And, there are also circumstance in which school districts need to attend to other factors that significantly influence the financial commitments of the organization. Notably among these for an educational agency are the personnel that they employ and the configuration of how educational services are deployed, i.e., assumptions on the size and number of schools, classrooms, etc. The two subsequent recommendations address each of these factors directly.

Recommendation 3.2 - Management and oversight of bargaining agreements

Overall Impact:	The districts level of commitments and spending on salary and benefits are defined by its collective bargaining agreements and contracts with employees. Furthermore, the collective bargaining agreements include provisions that affect levels or types of staff.
Action Required:	<p>Commitments made through bargaining agreements need to include a full consideration of known and estimated multi-year effects, with procedures in place to make adjustments as they are known. As part of the regular budget adoption and revisions the district needs to clearly define and document assumptions for the budget year plus two upcoming budget years for:</p> <ul style="list-style-type: none"> - Annual step and column - Health and welfare benefits - PERS and STRS contributions - Other benefits - Contracted staffing ratios (e.g, teachers, STIP subs, counselors, nurses) - Types and numbers of positions - Cost of living and other salary adjustments
Timeline to Implementation:	Ongoing
Background/ Rationale:	The district’s 2017-18 1st Interim included adjustments for collective bargaining-related adjustments, which were not explicitly included in the budget. The FCMAT Report provided recommendations that the district needs to ensure that bargaining beyond COAL must be supported by available fund balance. Given the financial condition of the district, it must work to build up fund balances while also carefully managing and monitoring bargaining agreement commitments.

Recommendation 3.3 - Conduct and deliver study and recommendations from the ‘Blueprint for Quality Schools’

Overall Impact:	The Blueprint for Quality Schools is a plan with long lasting impact to meet the changing facility, program and educational needs of the district.
Action Required:	The Blueprint for Quality Schools is currently in process and staff is working towards the timeline identified below. The critical action from this recommendation is for the Board of Education to act on the report provided in the winter of 2018.
Timeline to Implementation	<p>There are several key timelines to complete implementation of the Blueprint for Quality Schools, including several that have already passed.</p> <ul style="list-style-type: none"> ● May 25, 2017: Blueprint for Quality Schools process is launched ● Summer 2017: Retreats to investigate current facts about OUSD, structure the feedback from the community, and pathway to report to the Board of Education. ● Fall 2017: Conduct various regional and general stakeholder engagement session ● January 17, 2018: Engage opportunities are concluded ● Winter 2018: Report delivered to the Board of Education on the summary of findings and recommendations for next steps.
Background/Rationale:	This plan will contain a needs assessment for every school in the district, as well as recommendations on school and central office reconfiguration and rehabilitation to provide equity, quality and opportunity for ALL OUSD students. Families, community members, and an experienced team of professionals will work together to develop the plan for creating better spaces and programs for our children to thrive. For more information about this strand of work, please see: https://www.ousd.org/Page/3815

Appendix

Appendix A. Budget Mgmt Update: Need for Fiscal Vitality and Stability

TITLE: Budget Management Practices Needed for Fiscal Vitality and Stability

FROM: Kyla Johnson-Trammell, Superintendent

TO: Central Office Administrators and School Site Administrators

DATE: December 8, 2017

PURPOSE: Ensure central office leaders & school site administrators have the most current information on the implementation of implementing Ongoing Budget Management Practices.

BACKGROUND: As previously shared, during the 2016-17 [Closing of the Books](#) in September, the fund balance was depleted, causing us to begin 2017-18 with only the minimum 2% reserve. Our first Budget Revision adjustment projected a further reduction of fund balance to \$1.2 million below the 2% requirement.

Therefore, the Board of Education has an initial recommendation to increase the mid-year budget reduction to \$15.1 million to include an initial contribution to restore the self-insurance fund. All reductions will be voted on at the December 13 Board Meeting.

In addition to mid-year adjustments, much work remains to regain the District's long term financial health. The Board received a detailed financial health assessment from the Fiscal Crisis & Management Assistance Team ([FCMAT](#)). The Board accepted the report and expects a full plan to address the risk factors listed in the report, which include adhering to board policies, implementing new practices for deterring overspending and increasing budget monitoring. The Fiscal Vitality Implementation Plan (FCMAT Plan) will be presented to the board on December 13. We will begin some of the budget management practices highlighted in the plan immediately. Those practices are outlined below.

CURRENT STATUS:

Ongoing Budget Management Practices

We will need to take multiple measures to ensure a balanced budget this year. To start, all central departments and school sites are required to establish a culture of savings by implementing the cost savings and budget management practices detailed below.

I. Spending Restraints

We need to make a collaborative effort now to curb our spending. The spending restraints listed below apply to all funding sources including grants; excluding travel and positions required by the grant.

- A. No spending on Food and Refreshments for meetings. (Rare exceptions should be approved by your department/division lead or network superintendent and then reported to the superintendent on the [Spending Restriction Exception Tracker](#).)
- B. No spending on out-of-state travel. (Rare exceptions should be approved by your department/division lead or network superintendent and then reported to the superintendent on the [Spending Restriction Exception Tracker](#).)
- C. Limit spending on supplies.
- D. Hiring Freeze (see [hiring freeze memo and appeal form](#) for more details).

II. Contracts

All administrators should work to **limit or cancel spending** on service contracts which must be in line with our [Board Policy 3312](#). This includes that contracts over \$88,300 (in aggregate for the District for the year) typically should be competitively bid and that no work may begin on those contract prior to Board approval. Please submit any outstanding contracts as soon as possible for approval by staff or board or contract risks no payment or late payment. Central and Site Leaders should contact the Legal Office (879-8535) for assistance if needed.

III. Tighter Purchasing Procedures - (See [Board Policy 3310](#) and [New Procedures for Purchasing and Accounts Payable Memo](#), and [Notices to sites on Vendor Goods & Services Purchases](#) for reference.)

- A. Purchase Orders required for all transactions (prior to the completion of the transactions); purchase orders are also required for all reimbursements for required travel, conferences, professional development, supplies, and mileage.
- B. Blanket Purchase Orders only allowed for district-wide books, instructional materials and meal program food and supplies.
- C. Details of the purchases / reimbursements must be itemized with a detailed description for all goods and services, including sales taxes and shipping costs, if applicable.
- D. Requisitions or Purchase Orders must be coded correctly for the type of purchase.
- E. Each item valued at \$500 or more must be shipped to the Central Warehouse for inventory purposes (asset tagging).

F. OUSD is not responsible for and will not make payment on any contract for any services or goods provided by a vendor to any OUSD site, department or person, unless the contract in question has first been signed by one or more of those persons to whom OUSD has formally delegated contract signature authority as provided in OUSD BP 3312. OUSD will not make any payment to any vendor for the order/purchase of goods where there is not first an OUSD-issued purchase order. Any accounts in Goods and Services with negative balances need to be covered before winter break.

IV. Overtime/Extra Time

There are site-specific expenditures that do NOT have sufficient budgets in place in the areas of positive pay such as Extra Time, Overtime, Extended Contracts, Sub costs and so forth . All Central and School site leads must complete online budget transfers to cover the overages for unrestricted (NON-BASE) and for restricted by site before winter break. ([see details here](#))

Appendix B. Results-Based Budgeting (BP 3150 - Business and Non-instructional Operations)

The Board Policy on Results-Based Budgeting provides policy direction to the Superintendent regarding the Oakland Unified School District's continuous budget development process. The Board Policy on Results-Based Budgeting is directly aligned to and builds upon Board of Education policies on School Governance and Quality School Development.

The Board of Education hereby establishes the following principles to guide the Oakland Unified School District's annual budgeting process:

1. The allocation and expenditure of OUSD financial resources shall be aligned to the achievement of continuous improvement in school quality and student outcomes.
2. The allocation of OUSD financial resources to schools shall be maximized.
3. The distribution of OUSD financial resources to schools shall account for varying student needs and neighborhood conditions.
4. School governance teams shall be empowered to budget and expend OUSD financial resources.
5. The general public shall have timely access to accurate, comprehensive, and easily comprehensible OUSD financial management information at the school, department, and district-wide levels.

Within the context of established OUSD strategic priorities, state and federal regulations, and collective bargaining agreements, the Board of Education hereby establishes its intent to:

1. Adopt three-year district-wide School Quality Improvement goals, benchmarks, and priorities (i.e. Balanced Scorecard, Local Control Accountability Plan) toward which every school and every central administration department is responsible for achieving steady measurable progress.
2. Hold every school responsible and accountable, through the OUSD Community School Strategic Site Plan process, for budgeting and expending its financial resources in a manner that enables each school to realize steady measurable progress toward achieving Board-adopted School Quality Improvement goals and growth targets.
3. Hold every central administration department responsible and accountable, through the OUSD Community School Strategic Site Plan process, for budgeting and expending its financial resources in a manner that demonstrates how each department is achieving steady measurable progress toward providing the supports each school needs to achieve their School Quality Improvement goals and growth targets.
4. Maximize the allocation of all Unrestricted General Fund revenue (i.e. Local Control Funding Formula - Base, Supplemental, Concentration, and local tax revenue) to schools by:

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- a. First, paying all legally required district-wide obligations (e.g. State Emergency Loan, charter school pass-through payments, audit findings).
 - b. Second, allocating up to 12% of all Unrestricted General Fund revenue to support district-wide central administrative services (e.g. finance, human resources, performance management, instructional services, legal services, district leadership).
 - c. Third, paying the following services to schools:
 - i. Special Education
 - ii. Custodial and Buildings & Grounds
 - iii. School Police & School Security Officers
 - iv. School Nurse
 - v. School Counselors
 - vi. Specified Enrichment Resources (i.e. summer school, music, art)
 - d. Allocate to schools all remaining Unrestricted General Fund revenue based on the projected student enrollment of each school, including allocating a differential amount of revenue to schools based on the number of students enrolled at each school who:
 - i. Are in elementary schools, middle schools, and high schools
 - ii. Qualify for the Federal Free & Reduced Price Meals Program
 - iii. Are English Learners
 - iv. Are in Foster Care
 - v. Reside in high-stress neighborhoods