

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Palomar Community College District

Fiscal Health Risk Analysis

November 8, 2019

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About FCMAT

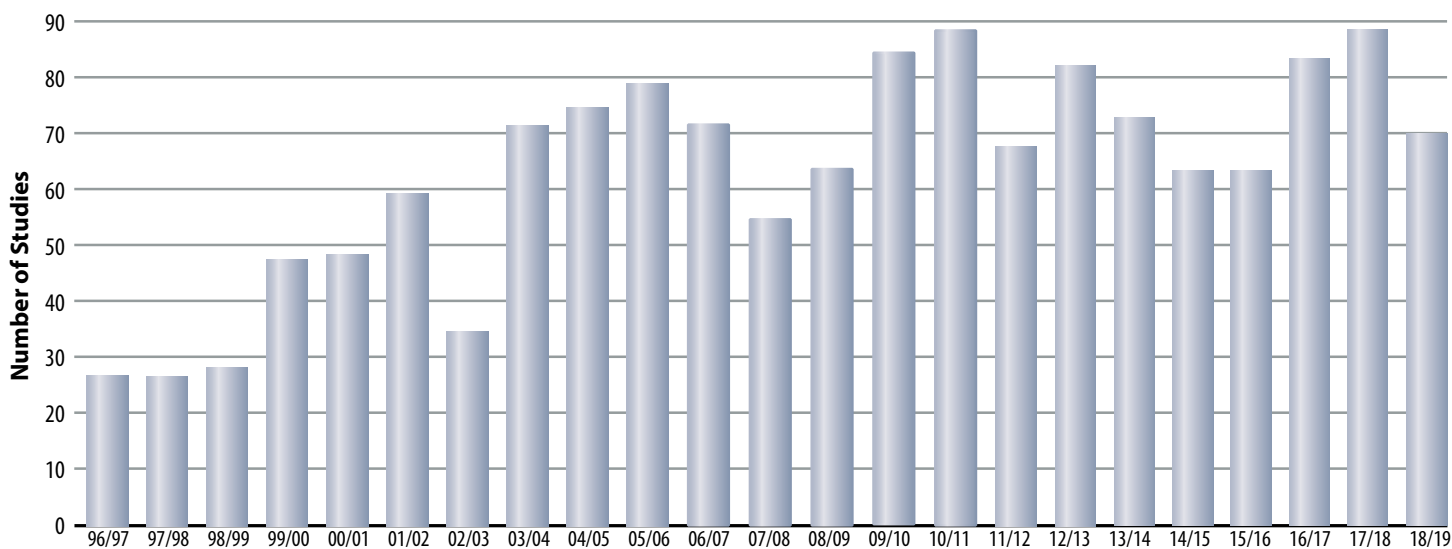
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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 learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

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

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

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

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

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

Introduction

Background

The Palomar Community College District has approximately 30,000 full- and part-time students, who choose from more than 200 associate degree and certificate programs, complete the first two years of college toward a bachelor's degree, or attend personal enrichment classes. Palomar College campus is the main campus and is located in San Marcos, California, approximately 30 miles north of San Diego. The district also operates the Escondido Education Center, Fallbrook Education Center, Rancho Bernardo Education Center and other smaller education sites.

In August 2019, the district asked FCMAT to conduct a Fiscal Health Risk Analysis to evaluate the district's financial health.

Study Guidelines

FCMAT visited the district on September 26, 2019 to conduct interviews, collect data and review documents. This report is the result of those activities.

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

Study Team

The study team was composed of the following members:

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Fiscal Health Risk Analysis



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

FCMAT has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a community college district’s fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 18 sections, each containing specific questions. Each section and specific question are included based on FCMAT’s work since the inception of the agency; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas could eventually lead to a district’s financial insolvency and loss of local control.

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

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

1. Annual Independent Audit Report Yes No N/A

1.1	Has the independent audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.2	Was the district’s most recent independent audit report free of material findings?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Has the district corrected all audit findings from the current and past two audits?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)?	<input type="checkbox"/>	<input type="checkbox"/>	✓
1.5	Has the district had the same audit firm for at least the last three years?	✓	<input type="checkbox"/>	<input type="checkbox"/>

2. Budget Development and Adoption Yes No N/A

2.1	Does the district develop and use written budget assumptions and multiyear projections that are reasonable, clearly articulated, and aligned with the signed state budget and the Student-Centered Funding Formula (SCFF)?	<input type="checkbox"/>	✓	<input type="checkbox"/>
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The district develops a comprehensive budget book that is used as the final public budget document that goes to the board of trustees for approval in September of each year. This document has areas that could use improved messaging. Clearly identifying ongoing unrestricted earned revenues would improve communication. For example, the unrestricted revenue charts include potential interfund transfers, which makes it difficult for the reader to understand critical benchmarks such as the percentage of salaries and benefits compared to actual new revenue and projected ending balances. Clearly identifying CalSTRS and CalPERS pass-through funds would also be helpful. These improvements would also improve the accuracy of multiyear projections.

2.2	Does the district use a budget development method other than a prior-year rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	<input type="checkbox"/>	✓	<input type="checkbox"/>
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The district rolls over the prior year budget and lacks a well-articulated review process that involves all budget managers. Historically, budget committee meetings were often cancelled, so budget managers did not have an opportunity to assess department needs in light of the district’s financial position. Budget reports do not accurately

reflect department actuals. Several departments have created alternative budget management systems to have real-time information. Under the current process, the business office makes the majority of budget and allocation decisions.

2.3 Does the district use position control data for budget development?

Position control for budget development is nonexistent, and as a result positions that were not authorized or in the budget were often approved by the business office, adding to the overall deficit. The district rolls over prior year budgets for salaries, then adds salary and benefit cost increases to develop the budget. There appears to be little discussion about positions that are unfilled during budget development because the district's practice is to decrease budgeted funds for unfilled positions throughout the year as those funds are needed in other budgets to cover expenditures, rather than reconcile human resources and payroll records to ensure that only open, authorized positions are shown as such in the budget in the first place. The district needs to develop and follow a process that includes significantly improved communication. The current process leaves most of the budget decisions to the business office.

2.4 Are clear budget development processes codified in Board Policies and Administrative Procedures?

Board Policy (BP) 6200 and, more importantly, Administrative Procedure (AP) 6200 for budget development, lack the detail expected in a fiscally independent California community college. AP 6200 identifies the legal requirements such as statement of philosophy, budget calendar, California Community College Chancellor's Office (CCCCO) submission deadlines, the fact that the process includes consultation with appropriate groups, and budget preparation guidelines that use screenshots from PeopleSoft (the college's financial and human resources software) to help departments submit budgets to the business office. Although the BP and AP exist, it is not clear what process takes place at the department level to determine which expenses are included in the submission, or how and when final decisions are made regarding approval of new expenses.

2.5 Does the budget development process include input from faculty/staff, administrators, the governing board, and the budget advisory committee in accordance with the district's documented planning model?

FCMAT was not able to ascertain what process or methods the district uses during budget development to determine which expenses are included in the budget because no documented processes were present, and information learned during interviews was not consistent.

2.6 Does the budget development process include a calculation of the SCFF with reasonable assumptions?

2.7 Does the district budget and expend restricted funds as authorized by the funding source before expending unrestricted funds?

2.8 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds to assess their congruency with the institution's strategic plan and the potential multiyear impact on the district's unrestricted general fund?

2.9 Are expected revenues more than or equal to expected expenditures in the district's adopted budget (budget is not dependent on carryover funds to be balanced)?

In 2019-20, the district is projected to receive \$115,124,684.00 in apportionment and \$14,479,259.00 in other local revenues for a total of \$129,603,943.00. Other local revenues projected in the budget were interfund transfers and state pass-through

funding. The district's projected expenses for 2019-20 are \$141,380,802.00. The deficit for 2019-20 is projected to be \$11,748,859.00. Thus, the expected revenues are less than expected expenditures in the district's adopted budget, necessitating a transfer in from other funds to balance the general fund.

- 2.10 Has the district refrained from using negative or contra expenditure accounts (excluding appropriate abatements in accordance with the Budget and Accounting Manual (BAM)) in its budget?
- 2.11 Does the district adhere to a board-adopted budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them?

The district adheres to a board-adopted budget calendar and due dates; major budget development tasks and deadlines are the responsibility of the business office. These deadlines indicate when major tasks should be finalized. A more comprehensive budget development process is needed, specifically, one that is tied to program reviews, which identify new budget needs. These needs should be discussed using an institutionally-approved process to determine which new expenses are funded. Some departments (such as the Facilities Department) do not participate in budget development.

3. Budget Monitoring and Updates

Yes No N/A

- 3.1 Are actual revenues and expenses consistent with the most current budget?
The district's current budget was adopted in September 2019 and did not include the budget necessary for campus police and parking services. Discussions are ongoing about how to meet this obligation. According to interviews, this lack of budget for campus police and parking has been a recurring theme in the past few years.
- 3.2 Are budget revisions posted at least quarterly in the financial system?
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at least quarterly?
With the exception of 311Q reports, which are the district's quarterly financial status reports, and verbal updates, no budget transfers or revisions are presented at the board meetings. Although the district adopted Board Policy and Administrative Procedure 6925, which defines the process for budget transfers and revisions after the adopted budget, it still had an ongoing practice of making fixed cost budget transfers throughout the year without notifying the superintendent/president or submitting the required resolution to the governing board. Based on interviews, this practice has ceased since July 2019.
- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs before the next financial reporting period?
- 3.5 Does the district include the interim CCFS 311Q reports on board's agendas?
- 3.6 Has the district addressed any budget-related deficiencies identified in the most recent ACCJC accreditation report?
- 3.7 If a college in the district has been notified that it is on an enhanced monitoring or watch-list status based on the college's ACCJC Annual Fiscal Report, have the district and college(s) taken steps to address the issues of concern identified by the ACCJC?
- 3.8 Does the district's enterprise software system include hard budget blocks that prevent the processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?

The district's financial system is not being used to its full potential. The system includes hard budget blocks, which are used for some items' expenses. District employees campuswide use Cal-Cards (credit cards) to make purchases. Individuals interviewed reported to FCMAT that the district has issued almost 400 credit cards. In most instances, credit card purchases circumvent the financial system and are not reviewed and approved in advance, which circumvents any form of internal controls.

- 3.9 Does the district encumber and adjust encumbrances for salaries and benefits?
- 3.10 Are all balance sheet accounts in the general ledger reconciled each quarter, at a minimum?

4. Cash Management

Yes No N/A

- 4.1 Does the district balance all cash and investment accounts with bank statements monthly?
- 4.2 Are outstanding amounts in the cash and investment account reconciliations less than one year old, or if older, have a resolution?
- 4.3 Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly?
- 4.4 Does the district comply with its county treasurer and/or county office of education's requirements for balancing accounts?
- 4.5 Has the district had a positive cash balance at the end of the month during the most recent 12 months?
- 4.6 Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known?
- 4.7 Does the district have a plan to address cash flow needs during the current fiscal year? .
- 4.8 Does the district have sufficient cash resources in its other funds to support its current and subsequent two fiscal years' projected obligations in those funds?
In 2021-22, the district is projected to borrow \$6.5 million from its other funds to meet its obligations. Currently, cash flow statements are not presented or openly discussed. Cash flow statements need to be presented to the superintendent/president quarterly.
- 4.9 If interfund borrowing is occurring, does the district comply with Object Code 7300 requirements in the BAM?
- 4.10 If the district is managing cash in any funds through external borrowing, such as a TRANS, has the district set aside funds for repayment attributable to the same year the funds were borrowed?

5. Collective Bargaining Agreements

Yes No N/A

- 5.1 Does the district quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?
- 5.2 If the district has conducted a pre-settlement analysis and identified related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and has it identified ongoing revenue sources or expenditure reductions to support the agreement?.

- 5.3 In the prior three years has the district settled the bargaining agreements at or under the funded cost of living adjustment (COLA)?
- In 2016-17, the district approved a 3% salary increase even though a statewide COLA was not provided. In 2017-18 and 2018-19, the district provided COLAs on the salary schedule as part of the collective bargaining agreements; these were automatic based on the state COLA. Providing automatic COLAs is an outdated fiscal practice. The increases in compensation in addition to employer contributions for CalSTRS, CalPERS, and health and welfare benefits, combined with no enrollment growth, immediately and negatively affect the district's fiscal position and its operations. The percentage of the district's ongoing revenue that is spent on salaries and benefits is significantly higher than average.*
- 5.4 If settlements have not been reached, has the district identified resources to cover the estimated costs of settlements?
- The district does not have sufficient revenues to cover any additional settlement agreements in the current or future years, based on current revenue and expenditure projections. Based on projections that show deficit spending, even the current collective bargaining agreements are unsustainable without budget cuts to offset their expense. This jeopardizes the district's financial position.*
- 5.5 Has the district settled with all its bargaining units for at least the prior two year(s)? . .
- 5.6 Has the district settled with all its bargaining units for the current year?

6. Intrafund and Interfund Transfers **Yes No N/A**

- 6.1 Does the district have a board-approved plan to eliminate, reduce or control intrafund transfers from the general fund unrestricted subfund to the general fund restricted subfund?
- 6.2 Does the board approve any intrafund transfers (contributions/encroachments) from the unrestricted general fund prior to occurrence?
- 6.3 If the district has deficit spending in funds other than the unrestricted general fund that create instability, has it included in its multiyear projection any transfers from the unrestricted general fund to any resulting negative fund balance (e.g., interfund transfers)? .
- The district uses categorical program revenue to fund a percentage of teaching load for counselors. These courses taught by counselors are then claimed on the 320 report, which is the state apportionment report based on attendance hours. Once the district reviews and identifies the liability associated with this practice, the unrestricted expenses are increased. The district needs to conduct a study to understand the short- and long-term effects of this practice.*
- 6.4 If any interfund transfers were required for other funds in either of the prior two fiscal years, and the need is recurring in the current year, did the district budget for them at reasonable levels?

7. Deficit Spending **Yes No N/A**

- 7.1 Is the district avoiding a structural deficit in the current and two subsequent fiscal years? (A structural deficit is when ongoing unrestricted expenditures and contributions exceed ongoing unrestricted revenues.)
- The district has a structural deficit of \$11,748,859.00 for the 2019-20 fiscal year. According to district budget documents, it had a deficit \$1,220,001.00 in 2018-19.*

- 7.2 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending?
- Although the district has begun reducing expenditures, it has no feasible plan in place to reduce and/or eliminate total estimated deficit spending. Once the state on-behalf (pass-through) payment and the transfer from the other post-employment benefits (OPEB) account are removed from the district's 2019-20 adopted budget (income and expenses), the district is spending 96.2% of its ongoing unrestricted revenue on salaries and benefits. This percentage will need to be reduced significantly for the district to achieve fiscal stability.*
- 7.3 Has the district decreased deficit spending over the past two fiscal years?
- The amount and percent of revenue the district spends on salaries and benefits continue to increase year after year at a rate greater than revenue growth. The district's current projected budget deficit for fiscal year 2019-20 is \$11,748,859.00. Its fiscal year 2018-19 budget deficit was \$1,220,001.00.*

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

- 8.1 Has the district completed a recent actuarial valuation to determine its unfunded liability under Governmental Accounting Standards Board (GASB) other post-employment benefits (OPEB) requirements?
- 8.2 Does the district have a plan to fund its liabilities for retiree health benefits?
- 8.3 Does the district have a multiyear plan to fund its projected employer contributions to CalSTRS and CalPERS?
- The district's plan is to fund increases in its employer contribution to CalSTRS and CalPERS on an annual, pay-as-you-go basis. No funds have been set aside to address future increases.*
- 8.4 Has the district followed a policy or negotiated a collectively bargained agreement to limit faculty banked hours?
- 8.5 Within the last three years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents?
- The district has not conducted a retiree eligibility audit within the last three years.*
- 8.6 Does the district track, reconcile and report employees' compensated leave balances on the balance sheet?
- The academic deans do not oversee faculty sick leave. There is confusion about how and when absences are tracked. A lack of proper management of faculty sick leave can increase the district's and its employees' vulnerability to pension fraud.*

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

- 9.1 Has the district's enrollment been increasing or remained stable for the current and two prior years?
- The district reported a total attendance of 18,218 full-time equivalent students (FTES) in 2016-17, 19,148 FTES in 2017-18, and 17,911 FTES at the second interim reporting period (P-2) in 2018-19.*
- Declining enrollment reflects the fact that the district rolled back FTES as the new funding formula was implemented to set base funding at a higher rate, which was allowable in order to increase enrollment during the hold harmless period of the SCFF. With the current enrollment strategy of increasing online course offerings and the*

opening of the two education centers in summer of 2018, current fall 2019 enrollment increased compared to fall 2018.

- 9.2 Does the district monitor and analyze enrollment, weekly student contact hours (WSCH) and full-time equivalent students (FTES) data at least monthly through the second reporting period (P2)? ✓

The district has just recently begun to track WSCH and FTES in 2018-19 as it relates to full-time equivalent faculty (FTEF) and appears actively engaged in improving these processes.
- 9.3 Does the district track historical WSCH and FTES data to establish future trends?. . . ✓

The district began tracking and using historical WSCH and FTES data in July 2019. How that data is used to establish future trends and influence decision making will be determined as the process develops.
- 9.4 Do colleges within the district maintain a record of WSCH or FTES that is reconciled monthly at the college and district levels at least through the second reporting period? . ✓

The district began tracking and using historical WSCH and FTES data in July 2019. How that data is used to establish future trends and influence decisions will be determined as the process develops.
- 9.5 Do the colleges within the district have and utilize an electronic enrollment management and class scheduling program? ✓

The college does not use an electronic enrollment management system that is tied to any class scheduling program. The district is developing spreadsheets that would begin to inform this process.
- 9.6 Are the district’s enrollment projections and assumptions based on historical data, demographic trend analysis, high school enrollments, community participation rates and other industry standards, in addition to any board policies that limit enrollment? . . ✓

The district does not have a comprehensive enrollment plan. Its enrollment projections are goals identified in its educational and strategic master plans that use prior year actuals as the baseline. The district is starting to use multiyear FTES data to develop goals but has not yet developed a comprehensive enrollment management plan. More time is needed to assess the enrollment projection process recently implemented.
- 9.7 Do the institutional research staff and business/fiscal staff agree on enrollment and FTES predictions? ✓

The district establishes enrollment goals, but how those predictions influence decisions is not clearly articulated or coordinated between departments.

The district lacks a comprehensive enrollment management plan that uses the resources and expertise of its Institutional Research Department. The research office is preparing substantial reports that could be used to influence future decision making.
- 9.8 Has the district verified that the colleges’ comprehensive enrollment plans address the funding elements of the SCFF? ✓

The district does not have a comprehensive enrollment management plan.
- 9.9 Does the CEO annually approve academic productivity goals that correspond to the estimated SCFF resources? ✓

Productivity goals are established but are not correlated with the SCFF resources. The district establishes FTES goals and attempts to establish goals in the supplemental and student success outcome metrics. More time is needed to assess whether these goals are pursued collegewide with a comprehensive plan in place.

10. Facilities	Yes	No	N/A
10.1 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.2 Does the district properly track and account for facility-related projects?.	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.3 Does the district use lecture classrooms for at least 48 or 53 hours per 70-hour week as defined by the Board of Governors (BOG) policy on Utilization and Space Standards?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>The district operates on a compressed calendar (that is, one with shorter than normal semesters but that still has the amount of instructional time required by law), so it should be using lecture classrooms 53 hours per week. However, the district's ratio of capacity to load for lecture space is 168.28%, which means it has 68.28% more lecture classroom space than it needs. FCMAT reviewed class schedules and found that few classes are scheduled on Fridays and Saturdays. It is nearly impossible for a college district that operates on a compressed calendar to meet the requirement for a 175-day academic year without scheduling classes Monday through Saturday.</i></p>			
10.4 Does the district use laboratory classrooms for at least 27.5 hours per 70-hour week as defined by the BOG policy on Utilization and Space Standards?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>Because the district uses a compressed calendar, it should be using laboratory classrooms 27 hours per week. However, its ratio of capacity to load for laboratory space is at 144.12%, which means it has 44.12% more laboratory classroom space than it needs. FCMAT reviewed class schedules and found few classes on Fridays and Saturdays. It is nearly impossible for a college district that operates on a compressed calendar to meet the requirement for a 175-day academic year without scheduling classes Monday through Saturday.</i></p>			
10.5 Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<p><i>The district rolls over prior year budget to address facility needs. The director of facilities does not participate in budget development. When funds are needed for facilities, the director of facilities requests budget augmentations throughout the year. This process does not provide an incentive for the department to identify less expensive services or the best use of funds.</i></p>			
10.6 Has a quantitative Facilities Condition Index assessment been conducted sometime in the last three years through the Foundation for California Community Colleges?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.7 Does the district have a five-year scheduled maintenance plan?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.8 If the district's budget includes state Physical Plant and Instructional Support funds, is the district expending at least .005% of its current operating budget for ongoing maintenance?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.9 If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.10 If the district has passed a Proposition 39 general obligation bond or a parcel tax and it has received any legal challenges or program audit findings concerning the use of those funds, has it addressed those complaints and/or findings?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.11 Has the district submitted the required facilities master plan to the California Community Colleges Chancellor's Office (CCCCO) on schedule?	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.12 Has the district submitted the required CCCCCO Space Inventory on schedule?.	✓	<input type="checkbox"/>	<input type="checkbox"/>

11. Fund Balance and Reserve for Economic Uncertainty		Yes	No	N/A
11.1	Does the district have at least a 5% Reserve for Economic Uncertainty in the current year?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.2	Did the district’s adopted budgets for the subsequent two years include at least a 5% Reserve for Economic Uncertainty? <i>The district’s 2020-21 adopted budget includes a reserve of 3.1%. In 2021-22 the reserve is projected to be -4.2%. The Accrediting Commission for Community Colleges and Junior Colleges (ACCJC) requires a 5% reserve. The district’s Board Policy 6250 requires a 7% reserve.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11.3	Does the district have at least a 5% Reserve for Economic Uncertainty in its budget projections for the two subsequent years? <i>The current year reserve, which includes a \$5,000,000 interfund transfer from the OPEB fund, is projected to be 9.3%. Once the interfund transfer is removed, the actual ending reserve would be 5.9%, which is less than the 7% required by board policy. The district’s 2020-21 projected reserve is 3.1% without any interfund transfers.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11.4	If the district’s budget projections for the subsequent two years do not include at least a 5% Reserve for Economic Uncertainty, does the district’s multiyear fiscal plan include a board-approved plan to restore at least a 5% Reserve for Economic Uncertainty? <i>The district does not have a plan to restore a 5% reserve for economic uncertainty. Based on the percentage of revenue expended on salaries and benefits, a 5% reserve would not cover one month’s worth of salary and benefit obligations. The district needs to act immediately to mitigate depletion of its reserve and to pay back the OPEB account.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11.5	Is the district’s projected unrestricted general fund budget stable or increasing in the two subsequent fiscal years? <i>The expenses for salaries and benefits are increasing faster than revenue increases, which creates increased deficits in subsequent years. The projected ratio of salaries and benefits to unrestricted revenue is 98.3% in 2020-21, 99.42% in 2021-22, and 99.81% in 2022-23. This is assuming the district receives (and passes on to employees) COLAs in its state funding in each of these years.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11.6	If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted general fund balance include any dedicated reserves above the recommended minimum 5% reserve level? <i>To maintain a 5% reserve, the district is borrowing funds dedicated to OPEB liabilities. These dedicated monies will need to be paid back to Fund 69. The district has no reserves assigned for unfunded or contingent liabilities or one-time costs.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

12. General Fund - Current Year		Yes	No	N/A
12.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures? <i>As it has regularly in the past, the district is borrowing funds from Fund 69 because it is expending more than its total revenues.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12.2	Is the percentage of the district’s general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the three prior years as reported by the CCCCO? <i>When the state on-behalf pension payment is removed from revenues and expenditures, and the projected \$5,000,000 OPEB transfer is removed from revenue, the percentage of the district’s unrestricted general fund revenues (without interfund</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

transfers) that is allocated to salaries and benefits is 96.2%. The statewide average is between 80% and 85%.

- 12.3 Is the district in compliance with the Fifty Percent Law (Education Code Section 84362)?
- 12.4 Is the district at or above its Full-Time Faculty Obligation Number?
- 12.5 Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds?
- 12.6 Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?
- 12.7 Does the district consistently account for all program costs, including maximum allowable indirect costs, for each restricted resource?

The district does not have an approved federal indirect rate. The district's established rate expired several years ago and has not been resubmitted. The federal indirect rate is required to fully fund institutional expenses for federal grants. Without an approved federal indirect rate, the district cannot collect indirect costs for federal programs. State restricted programs include an allowable indirect cost that can be collected for each funding source.

13. Information Systems and Data Management

Yes No N/A

- 13.1 Does the district use a human resources system and position control system that is integrated with the financial reporting system?
The district's human resources system is not integrated with its financial reporting system.
- 13.2 Does the district have emergency electrical back-up and data recovery systems?
- 13.3 Are enrollment management and budget development systems integrated?
The district does not have an integrated budget, human resources and financial system. The budget development and enrollment systems work independently of each other. This lack of systems integration has severely affected the district's financial position.
- 13.4 If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?
- 13.5 Does the district conduct regularly scheduled evaluations of the security measures that protect student and employee personal information?

14. Internal Controls and Fraud Prevention

Yes No N/A

- 14.1 Does the district have controls that limit access to and include multiple levels of authorizations within its financial system?
- 14.2 Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?
- 14.3 Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?
 - Accounts payable
 - Accounts receivable

Cash management	✓	<input type="checkbox"/>	<input type="checkbox"/>
Budget monitoring and review	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>One employee serves as both budget manager and payroll manager. Neither the budget development process nor budget administration are clearly designed or defined to receive input and information from the campus for budget development or to disseminate information to campus departments.</i>			
Purchasing and contracts.	✓	<input type="checkbox"/>	<input type="checkbox"/>
Payroll	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>One employee serves as both budget manager and payroll manager. These critical areas should have separate managers.</i>			
Human resources	✓	<input type="checkbox"/>	<input type="checkbox"/>
Associated student body	✓	<input type="checkbox"/>	<input type="checkbox"/>
Warehouse and receiving	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.5 Does the district review and clear prior year accruals by October 31?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.6 Does the district reconcile all suspense accounts, including salaries and benefits, at least each quarter and at the close of the fiscal year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.8 Does the district have processes and procedures to discourage and detect fraud?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>The district implemented a fraud hotline in July 2019. Reports to the hotline are directed to the internal auditor, who reports to the director of fiscal services. This is not best practice organizationally for an internal auditor position. In a fiscally independent district such as the Palomar Community College District, the internal auditor should report directly to the district's superintendent or president, or at least to its chief business official. The auditor position needs as much independence as possible.</i>			
14.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.10 Does the district have a process for collecting and following up on reports of possible fraud?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>The fraud hotline was implemented earlier this year, and processes to collect and follow up on possible fraud has not been fully developed and tested.</i>			
14.11 Does the district have an internal audit department or dedicated staff?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>Although the district has an internal auditor, as indicated under item 14.8 above this position reports to the director of fiscal services and thus is not sufficiently independent.</i>			

15. Leadership and Stability

Yes No N/A

15.1 Does the district have a chief business official who has been with the district more than two years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>The district's chief business official recently separated from the district after eight years of service. The position was filled with an interim at the time of FCMAT's review.</i>			

- 15.2 Does the district have a chief executive officer (CEO) who has been with the district more than two years?
- 15.3 Does the CEO meet with all members of the administrative cabinet on a scheduled and regular basis?
- 15.4 Is training on financial management and budget provided to district, college and department administrators who are responsible for budget management?
- 15.5 Does the governing board review and revise policies and administrative regulations at least annually?
FCMAT reviewed board policies and administrative procedures related to fiscal matters and found that only one policy and one administrative procedure have been reviewed and/or revised since 2015.
- 15.6 Are newly adopted or revised board policies and administrative regulations formally implemented, communicated and available to staff?
The lack of updates to fiscally-related board policies and administrative procedures indicates that revisions are not communicated sufficiently to staff; however, a board policy committee is in place, and all policies and procedures are available electronically. In 2018 the district implemented a process of providing all employees with a thumb drive with all current policies and procedures. Each manager is required to have employees sign that they received the thumb drive.
- 15.7 Is training on the budget and governance provided to board members at least every two years?
There is no public evidence that the district has provided comprehensive budget and governance training to its board members during the past two years. However, board documents indicate the trustees were given budget updates and that some board members attended conferences where budget workshops were available.
- 15.8 Is the CEO's evaluation performed according to the terms of the contract?

16. Multiyear Projections

Yes No N/A

- 16.1 Has the district developed multiyear projections that include detailed assumptions aligned with industry standards, including CCCCO and ACCJC?
The district provides multiyear projections in its adopted budget. These projections do not include a 5% ending balance to align with industry standards and ACCJC recommendations. To meet industry standards, the district needs to include a plan to meet the 5% reserve requirement.
- 16.2 Did the district use the SCFF with multiyear considerations to help calculate its multiyear projections?
The district's multiyear financial projections include only the total SCFF revenue; they do not include a separate breakdown of base (FTES), supplemental (low income), and student success portions of the funding. In future years, the district should project these funding metrics separately.
- 16.3 Does the district use its most current multiyear projection when making financial decisions?
The district's most recent multiyear projections include deficit spending patterns. No plan is in place to improve the district's financial state.

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

- 17.1 Are the sources of repayment for non-voter-approved debt (such as certificates of participation (COPs), bridge financing, and bond anticipation notes (BANS) predictable and stable, and not from the unrestricted general fund?
- 17.2 If the district has issued non-voter-approved debt, has its credit rating remained stable or improved?
- 17.3 If the district is self-insured, does the district have a recent (every two years) actuarial study and a plan to pay for any unfunded liabilities?
- 17.4 If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, TRANS and others), is the total of annual debt service payments no greater than 2% of the district’s unrestricted general fund revenues?

18. Position Control **Yes No N/A**

- 18.1 Does the district account for all positions and costs (position control)?
Position control takes place in the Human Resources Department. There is little communication among human resources, instruction, and finance. FCMAT was not able to obtain confirmation that all positions and costs are accounted for. Based on conversations, FCMAT found that under the current collective bargaining agreement neither the vice president of instruction nor the deans have control over full-time and adjunct scheduling for courses and overload, right of assignment, enrollment management, or class efficiency. This is not a fiscally sustainable practice.
- 18.2 Does the district analyze and adjust staffing based on enrollment?
With the exception of adjunct faculty, no analysis or adjustment to staffing is considered based on enrollment.
- 18.3 Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and quarterly reporting periods?
- 18.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?
- 18.5 Does the governing board approve all new positions and extra assignments before positions are posted?
- 18.6 Is the approval of hiring staff using categorical or other restricted dollars subject to adequate program funding?
- 18.7 Do managers and staff responsible for the district’s human resources, payroll and budget functions meet regularly to discuss issues and improve processes?
Based on FCMAT’s interviews, little communication is occurring between departments. There is no formal documentation in meeting minutes to indicate formal communications related to the personnel budget.

Total Risk Score, All Areas **44.5%**

Key to Risk Score

- High Risk: 40% or more*
- Moderate Risk: 25-39%*
- Low Risk: 24% and lower*

Summary

The district's Fiscal Health Risk Analysis (FHRA) score is 44.5%, which indicates that the district has a high probability of fiscal insolvency in the near future based on the issues found. At the current pace, salary and benefit costs will consume 100% of the unrestricted general fund revenues in three years. In two years, the district will have consumed all reserves and will be forced to borrow \$6.5 million from an external source to remain solvent.

The district has now reached a point at which it is not possible to solve its fiscal distress through enrollment growth and related revenue increases. Although every effort should be made to become more efficient and use facility space more wisely to restore enrollment to previous levels, the district does not have funds to invest in an aggressive plan to significantly increase enrollment. The district should have conducted studies to support expanding its educational reach more than a decade ago to ensure the entire district is served. Having missed this opportunity, it will need careful planning to balance its limited growth funding and increased operational expenses.

Like many California community colleges, the district is also looking at strategies to increase other revenue, such as increasing center capacity and alternative revenue streams. FCMAT encourages an intentional focus on long-term enrollment strategies such as implementing middle college high schools and other long-term goals. FCMAT cautions the district to proceed with deliberation while working to refine the organizational structure and establish management rights to effectively manage fiscal and human resources.

As this report shows, the underlying operational policies and procedures used to conduct day-to-day business at the district are either not followed or are outdated and do not meet California community college standards or the standard expected for a fiscally independent district. These operational deficiencies are not recent; they have been accumulating for a long time. Practices should be examined, and every effort should be made to implement substantial improvements. FCMAT is concerned that if the operational procedures and decision-making capacity is not significantly improved, efforts to implement new and innovated ideas and activities will not be successful.

The district, which includes Palomar College, consists of faculty, staff, administrators and a board of trustees. Each group has an important role to play in serving the community. The district's current financial condition is the result of a long history of inadequate practices that have led to antiquated business practices, and to systemic structures and processes that are outdated, unsustainable and an impediment to long-term institutional effectiveness. Sustainable change will require that the entire district make a major paradigm and cultural shift in the manner in which it administers and manages its financial resources in all segments of the institution. For the district to remedy its current financial condition, it will require contributions, input and solutions from all, with a focus on finding and implementing solutions.

The district should consider doing the following to improve its fiscal health:

- 1. Immediately begin bargaining with all constituent groups and reviewing all aspects of contracts. Evaluating the management's right of assignment, health and welfare benefit costs, and the entire salary schedule, should be a high priority. The goal is to not only eliminate the fiscal deficit, which is almost \$12,000,000.00 this year, but also to improve the district's overall operation and long-term stability. Every constituent group in the district has a considerable role to play. Small, temporary concessions will only delay the difficult decisions that need to be made to ensure the district's long-term fiscal health.*
- 2. Establish a comprehensive internal auditing capacity that meets the industry standard for fiscally independent districts. When beginning this process, the district may need several highly skilled auditors to evaluate and help implement improved procedures, which should be fully documented and discussed as part of participatory governance. Every decision should be memorialized and followed, with focus on the following:*
 - a. Establishing separation of duties, which is a critical element of internal controls, and best practices in human resources and administrative services. Fully using an integrated and efficient technology system is vital.*
 - b. Fully developing a districtwide procurement handbook that complies with all regulations related to spending public dollars. Credit cards should be replaced immediately with open purchase orders and industry-standard electronic requisition procedures.*

- c. *Evaluating all manual processes in the Human Resources, Fiscal Services and Academic Affairs departments to improve efficiency and accuracy and working directly with the Information Technology Department to improve system functions.*
 - d. *Ensuring all funds are reviewed. Categorical funds, when not properly managed, can become a detriment to the unrestricted general fund.*
 - e. *Creating standard reporting documents that will improve fiscal and operational decision-making and communication.*
3. *Review the management structure in all academic and nonacademic areas. Establishing clear roles and responsibilities and well thought out communication strategies for each position should become a priority. Understanding best practices for, and providing comprehensive training in, Education Code, Title 5 and State and Federal labor laws will serve the entire district well.*
 4. *Update and follow a comprehensive districtwide planning process that drives budget development. This process begins with a comprehensive program review and is tied to the district's strategic plan. The process should determine how the district spends its income. The current process does not clearly identify where funds should be spent. Currently, the expenses related to salaries and benefits leave little room for any valuable dialogue. The budget affects every department; therefore, every department should participate in its development. The district's current practice relies too heavily on the business office. The business office is the custodian of the funds but should not be the final decision maker. It is imperative that all major budget items or changes be recommended to the superintendent/president for final decision and recommendation to the governing board.*
 5. *To optimize offerings for students, establish and follow a collegewide comprehensive enrollment management plan that uses demographics, enrollment trends, program review and facility capacities as well as other relevant information. The enrollment management plan is a large contributor to budget development.*
 6. *Conduct a data integrity study to validate all data used for decision making and to ensure it is accurate and understood consistently by all users. Increase the use of district-approved standard reports that have been well vetted and that all who use them can understand. Reducing the learning curve of district personnel as they begin to use data to guide decisions should be a priority.*
 7. *Integrate position control and enrollment management with the financial reporting systems in accordance with standard and best practice. Full integration will enable the district to accurately evaluate its current and future staffing levels and needs.*
 8. *Establish and follow a comprehensive training program for the following areas:*
 - a. *Board of trustees – training in understanding the budget and in governance responsibilities to better understand the district's specific financial benchmarks.*
 - b. *Data integrity – training in understanding reporting tools and their purposes*
 - c. *Department-specific – training in Education Code, Title 5, and labor law provisions*