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VENTURA COUNTY OFFICE OF EDUCATION

Dr. César Morales, County Superintendent of Schools

This letter is delivered via email and physical address via overnight postal service to the Governing Board Trustees.

January 12, 2023
Revised for Governing Board Trustee Phil Moncharsh address correction.

Dr. Rebecca Chandler, Governing Board President
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rchandler@ojaiusd.org

Ms. Shelly Griffen, Governing Board Vice President
202 Olive Mill Lane, Ojai CA 93023
sgriffen@ojaiusd.org

Mr. Atticus Reyes, Governing Board Clerk
607 Emily Street, Apt. G, Ojai CA 93023
atticus.reyes@ojaiusd.org

Mr. Phil Moncharsh, Governing Board Trustee
11830 Silver Spur Street, Ojai CA 93023
phil.moncharsh@ojaiusd.org

Dr. Jim Halverson, Governing Board Trustee
1108 Del Nido Court, Ojai CA 93023
jim.halverson@ojaiusd.org

Dear Governing Board Trustees:

The Ventura County Office of Education (VCOE) has reviewed the first interim report of the Ojai Unified School District (District) for the period ending October 31, 2022, in accordance with Education Code Section 42131. The District submitted a first interim report with a qualified certification, reflecting that the District may not be able to meet its financial obligations for the current or subsequent fiscal years. However, based upon our analysis it appears the District will be unable to meet its obligations in 2023-24. Therefore, **we are downgrading the first interim from a qualified to a negative certification.**

The basis of this determination is due to the inaccurate and inadequate information within the first interim and our cash flow analysis demonstrating the District will deplete all cash before the end of the fiscal year 2023-24.

The following details outline the fiscal and operational concerns and without immediate intervention, the District is at risk of becoming financially insolvent.

1. The District did not include in the first interim budget or in the actual monthly payroll expense, health and welfare costs for several active employees and retirees, causing approximately a $500,000 understatement of expenses for the current and two subsequent years.

2. The District has a health and welfare liability balance from 2021-22 of approximately $400,000 in the balance sheet that needs to be expensed. This prior year expense will increase the current year health and welfare expenses by approximately $400,000.

3. The multi-year projection includes a contribution to the restricted revenue of the general fund in the subsequent years that does not have the associated unrestricted revenue being used. This causes an overstatement of restricted revenue of $550,000 in 2023-24 and $55,000 in 2024-25; or if the contribution is planned from unrestricted resources, the unrestricted revenue needs to be reduced in order to cover these contributions.

4. The District budgeted in the multi-year projection the CalSTRS on-behalf pension revenue entries but did not budget the corresponding expenditure. This resulted in a $730,000 understatement of expenses in both subsequent years which overstates the general fund ending balances.

5. The local revenue budget does not align with the District's recent trends. If these revenues are not received, there is an overstatement of local revenue by approximately $540,000 annually, in the current and subsequent two years. We have requested and are waiting for any backup documents to substantiate this increase in local revenue.

6. The District included an ongoing salary increase using the one-time Arts, Music, and Instructional Materials Block Grant. In the subsequent years when the one-time block grant is spent, this ongoing expense needs to be covered by another funding source.

7. The District was granted an extension for the filing of the 2021-22 audit report to February 28, 2023 due to a District staffing shortage. The auditor has communicated a lack of progress on their audit services due to the District not providing documentation and delaying the audit. Currently, it is our understanding the on-site audit visitation is scheduled for the week of January 16, 2023. The lack of a timely annual audit for a district experiencing fiscal distress is a significant concern.

8. The District has not provided VCOE requested additional information, clarifying details and back up documentation regarding the District's first interim. On October 27, 2022, I sent an email (attached) with an urgent task list for the District to complete along with the first interim in support of resolving the District's fiscal distress. The following is a summary of items that were not submitted:

    - A statement identifying the reason for the 2021-22 negative unrestricted fund balance and the steps taken by the board to ensure the minimum reserves will be restored in 2022-23 (Pursuant to Education Code Section 42127.5).

    - A board approved and detailed reduction plan of positions for the layoff action by March 15, 2023, that supports the amount of reductions needed for the District to meet its obligations for the current and subsequent two fiscal years.

Based upon the District's information provided, our analysis, and accounting for the unsubstantiated revenues and omitted expenses listed above, there is a potential negative result to the District's multi-year projection of a three year impact totaling $5.6 million. This results in the inability to meet required reserves in 2022-23, 2023-24, and a negative general fund balance of $3 million in 2024-25. In addition, based upon our projection of the District's cash balances, there will be an inability to pay employees and vendor obligations through 2023-24 without intervention and immediate reductions of expenses.

The District's submitted multi-year projection included $1.15 million in personnel reductions for 2023-24 without a requested board approved detailed plan identifying the position reductions. After adjusting for the inaccuracies listed above, the District must increase the 2023-24 reductions to $2.3 million. The March 15, 2023 layoff timeline for certificated and classified positions is imminent and the District must ensure the implementation of position reductions and associated total cost reductions. **The detailed board approved reduction plan of at least $2.3 million must be submitted to VCOE by January 20, 2023.**

It is highly recommended that more than $2.3 million of reductions are identified and acted upon, to account for the potential seniority and particular kinds of services challenges, when reducing positions. Issuing more notices than needed, provides the District with viable options that can be rescinded in May 2023.

The negative certification provides VCOE the authority to take actions necessary to ensure the District meets its financial obligations (Education Code Section 42127.6). The following is a summary of possible actions:

- Assign a fiscal expert to advise the District on its budgetary issues.

- Conduct a financial study including a review of internal controls.

- Direct the District to submit financial and cash projections for the current and subsequent years.

- Require the District to encumber all contracts and obligations.

- Direct the District to submit a proposal for addressing the fiscal conditions that resulted in the basis of determination.

- Withhold compensation of the governing board members and the District superintendent for failure to provide requested financial information.

- Assign the Fiscal Crisis and Management Crisis Team (FCMAT) to review and improve teacher hiring processes, retention rate, misassignments, and provision of highly qualified teachers.

- Appoint a fiscal advisor to develop a financial plan for current and subsequent years.

- Stay or rescind any action of the District Governing Board that is inconsistent with the ability of the District to meet its obligations.

In support of assisting the District with business processes and to improve the inaccuracies in the budget and the actual expenditures, VCOE will be assigning a fiscal expert to work at our direction and to be paid 75% by the District and 25% by VCOE, pursuant to Education Code Section 42127.6(a)(1)(B).

With a negative certification, the District is also subject to the following:

- Prior to entering into any collective bargaining agreement, the District must submit the proposed agreement in advance to VCOE and allow 10 days for our review and comment, in accordance with Government Code Section 3540.2(a).

- The District must obtain VCOE approval prior to the issuance of any non-voter approved debt, including a Tax Revenue Anticipation Note (TRAN) and Certificate of Participation (COP), in accordance with Education Code Section 42133(a).

- The State Controller may conduct an audit or review of the District if it is deemed necessary.

Pursuant to Education Code Section 42127.9(a), the governing board of the school district has five days to appeal this decision to the State Superintendent of Public Instruction.

Our office acknowledges the difficult financial decisions the Governing Board Trustees are facing. We will continue to collaborate and work closely with the District to strengthen its financial condition and ensure the focus of the District and community, remains on the students and wonderful achievements happening at the Ojai schools. If there are any questions regarding this letter or if our office can be of further assistance, please do not hesitate to contact me at cemorales@vcoe.org or (805) 383-1902, Misty Key, Deputy Superintendent of Fiscal and Administrative Services at mkey@vcoe.org or (805) 383-1905, or Danni Brook, Executive Director of School Business and Advisory Services at dbrook@vcoe.org or (805) 383-1981.

Sincerely,

Dr. César Morales
Ventura County Superintendent of Schools

cc: State Superintendent of Public Instruction
State Controller
Fiscal Crisis and Management Assistance Team Chief Executive Officer
Ventura County Auditor Controller
Ventura County Treasurer
Eide Bailly
District Superintendent
VCOE Deputy Superintendent, Fiscal and Administrative Services
VCOE Executive Director, School Business and Advisory Services

Attachment: Email dated October 27, 2022

From: Cesar Morales <CeMorales@vcoe.org>
Sent: Thursday, October 27, 2022 1:56 PM
To: Tiffany Morse <tmorse@ojaiusd.org>
Cc: Misty Key <MKey@vcoe.org>
Subject: Mtg to Discuss Urgent Tasks Leading to First Interim 22/23

Hi Tiffany,

Are you attending the Superintendent's meeting tomorrow in person?

I would like for you to meet with me and Misty tomorrow at 11:30 a.m. to discuss some urgent tasks that need to be done leading to First Interim. If you are not planning to attend the meeting in person, can you make yourself available at 11:30 a.m. via zoom or conference call.

The following is a short list to guide the district in actions needed to repair fiscal distress:

1. Pursuant to Education Code section 42127.5, a statement identifying the reason for the negative unrestricted fund balance of 2021/22, the steps taken by the board to ensure the negative unrestricted fund balance will not occur in 2022/23 and how the minimum required reserves will be restored.
2. A board approved and detailed reduction plan of at least $1.2-$1.5M ongoing reductions to keep up with the loss of enrollment from prior year(s). The amount of reductions needed might be more and the district is advised to thoroughly determine the total reductions needed for action by March 15, 2023. Options available to implement now include a hiring freeze, eliminating all unnecessary expenditures and identifying expenses that can be postponed.
3. Consider self-certifying as negative status for first interim to engage the level of support needed to correct the current fiscal distress.
4. Assess the cash flow projection with scrutiny to ensure there is enough cash on hand monthly for all payables and payroll; issuance of another TRAN if needed

I believe this meeting will be an opportunity to discuss the urgent list of actions shared above and an opportunity to address any questions you may have. I am confident the school district can recover from the present budget status if necessary actions are taken in anticipation of First Interim.

Cesar

DR. CÉSAR MORALES
VENTURA COUNTY SUPERINTENDENT OF SCHOOLS

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