

# THE FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM

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## ***Its Recommendations, if Implemented, Should Help Financially Troubled School Districts***

REPORT NUMBER 2003-129, JUNE 2004

The Fiscal Crisis and Management Assistance Team response as of December 2004

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### ***Audit Highlights . . .***

***Our review of the Fiscal Crisis and Management Assistance Team (FCMAT) revealed:***

- FCMAT's reports include recommendations that are valuable and should help improve the financial health of school districts.***
- Most of the school districts we reviewed have implemented or partially implemented many of FCMAT's recommendations.***
- Fiscal recovery of a school district can take several years depending on the nature and severity of its problems.***
- Since its formation, FCMAT's responsibilities have expanded, primarily as a result of legislation.***

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The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits conduct a performance and financial audit of the Fiscal Crisis and Management Assistance Team (FCMAT), including a review of its prescribed roles and responsibilities in connection with school districts requesting emergency apportionment loans from the State. Specifically, we were asked to evaluate the mix of responsibilities that FCMAT has been asked to assume since its formation. This included assessing the level of involvement FCMAT has had with the various school districts receiving state emergency loans. In addition, we were asked to determine whether FCMAT can demonstrate that its involvement has improved the fiscal health of school districts, and to what extent its involvement has prevented the need for state emergency loans to school districts. We were also asked to examine the policies and procedures that FCMAT uses to acquire the services of contractors, including determining whether FCMAT reasonably justifies the use of noncompetitive personal services contracts and how FCMAT monitors and evaluates the performance of its contractors. The audit committee asked us to review FCMAT's financial statements to determine the amount of administrative and overhead costs and, for a sample of school districts that received state emergency loans, to determine the amount FCMAT charged for its services.

Additionally, we were asked to determine the level of oversight other entities have over FCMAT, including FCMAT's management of its annual budget. We were also asked to determine, where appropriate, the amounts received by the trustees or administrators of the school districts. Finally, we were asked to review and evaluate the process for selecting FCMAT's

- ☑ *FCMAT's process for selecting consultants to work on its large comprehensive reviews is fair, but FCMAT can improve by sending application packets to a larger group of consultants.*
  - ☑ *FCMAT's governing board has good reasons to keep the rate FCMAT bills school districts low.*
  - ☑ *The percentage of FCMAT's administrative and overhead costs seems reasonable.*
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board members and staff, including whether it has defined minimum qualifications for the various employment levels.

### **Finding #1: FCMAT provides valuable advice to troubled school districts.**

Since FCMAT's inception, it has completed 369 school district studies and other services, including acting as a fiscal adviser to school districts and county offices and assisting the State Superintendent of Public Instruction.

Our review of FCMAT's involvement at 10 school districts revealed that FCMAT provides findings and recommendations that are valuable and should help improve the financial health of school districts. All of the school districts we reviewed appeared to have implemented or partially implemented some of the recommendations we selected to review, although due to various factors, including the severity and nature of their problems, several of them continue to experience financial difficulties. Because FCMAT's recommendations are standards-based, they have resulted in improved practices, which can lead to improved overall fiscal health for the school districts that implemented them. However, FCMAT's recommendations can be effective only if school districts take action on them. School districts are not required to implement FCMAT's recommendations and, except for those districts that received emergency loans, FCMAT is not required to report the progress the districts make in implementing its recommendations.

### **Finding #2: FCMAT uses a fair process to identify and select consultants for its studies, but it does not solicit a sufficiently large number of consultants to bid on its comprehensive reviews.**

FCMAT is not subject to state contracting laws, but it does put its more extensive, comprehensive review work out to bid. However, for the first Oakland Unified School District study in 1999 and the subsequent studies in the West Contra Costa and Berkeley school districts, FCMAT did not publish an open request for application (RFA); instead, it mailed invitations to bid to only a short list of applicants. FCMAT may have received more bids from qualified applicants if it had sent invitations to bid to a larger group. By not soliciting bids from a larger group of consultants, FCMAT did not ensure that it had a sufficiently broad pool of experts from which to choose.

To obtain the broadest range of consultants to choose from, FCMAT should expand its list of consultants who receive request for application packets.

***FCMAT Action: Corrective action taken.***

FCMAT reported that on June 23, 2004, its governing board approved a corrective action plan to increase the list of consultants that receive RFA packets. FCMAT also provided documents reflecting its efforts to increase the number of consultants responding to its RFA for a comprehensive study of the Vallejo City Unified School District.

**Finding #3: FCMAT can more effectively use its client feedback process.**

Although most of its clients who completed an evaluation form are pleased with its performance, FCMAT does not keep records of its resolution of complaints and thus cannot ensure that it addresses the concerns they raise. Using this information from its customers, FCMAT should be able to improve its service over time and continue using consultants that its customers have found helpful and professional.

To improve its customer service, FCMAT should ensure that it adequately addresses the issues its customers raise in post-study evaluations by developing a process for tracking the concerns and documenting the steps it takes to resolve them.

***FCMAT Action: Corrective action taken.***

FCMAT reported that on June 23, 2004, its governing board approved a corrective action plan to develop a process for tracking the concerns customers raise in the post-study evaluation and documenting the steps FCMAT takes to resolve them. FCMAT also provided copies of the follow-up and resolution report form that it used to resolve issues raised on three post-study evaluations in March and April 2004.

**Finding #4: FCMAT has good reasons to keep its billing rate low.**

To offset some of the costs of performing management assistance studies, the Legislature authorized FCMAT to charge school districts that are not declared as fiscal emergencies a daily rate for these services. Currently, FCMAT's governing board has approved a \$400 rate per team member for every

day that FCMAT or its consultants are on site at the districts. This rate is on the low end of what FCMAT pays its consultants for these services, but it appears reasonable given FCMAT's understanding that the Legislature intended FCMAT to assist financially troubled school districts to head off financial crises, such as bankruptcy, thereby avoiding the need for emergency loans from the State. FCMAT generally does not bill school districts that have received state emergency loans or that FCMAT's board has designated as being in a fiscal emergency for its services. Rather, the State pays FCMAT's costs in such cases, either through FCMAT's annual appropriation for management assistance studies or through separate appropriations specific to particular school districts.

**Finding #5: FCMAT's administrative costs appear reasonable.**

For the three fiscal years 2000–01 through 2002–03, FCMAT's studies cost an average of \$3.1 million annually, including \$2.1 million per year for management assistance studies and an average of \$1 million during each of the three years for comprehensive studies of school districts as mandated by legislation. Of the \$2.1 million, it billed approximately \$632,000, or 31 percent of its average costs per year, to the school districts that received the services. Also during this period, FCMAT spent, on average, \$419,000 per year, or 13 percent of the \$3.1 million, on administrative costs, including costs for office space, utilities, office supplies and equipment, and other costs not directly associated with its studies.

We noted that the administrative costs do not include the portion of two managers' salaries that is related to administrative duties, such as approving staff time sheets and attending FCMAT's board meetings. However, it is not likely that including the portion of their salaries associated with performing those tasks would cause FCMAT's total administrative costs to exceed a reasonable proportion of the total costs. Further, given the small size of FCMAT, it is reasonable that its administrative costs, most of which would remain the same regardless of the number of studies it performs, represent a higher proportion of its total costs when compared to larger organizations because FCMAT cannot benefit from the economies of scale that large organizations enjoy.